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Shuttle Panel Urges Sweeping Overhaul Of NASA Practices

By William Harwood
United Press International

WASHINGTON — The presidential commission investigating the accident that destroyed the space shuttle Challenger and killed its seven crew members issued its final report Monday. The panel blamed the disaster on a failed booster rocket, and called for a sweeping overhaul of the NASA's management and safety programs.

The panel said space agency procedures that allowed the launching of the shuttle as its sole means of carrying heavy payloads into orbit.

However, the commission's chairman, William P. Rogers, said at a news conference that the commission was not asked to assess blame, "and we have not assessed blame."

Obviously, there was a serious failure," he said. "We are not going to go beyond that."

President Ronald Reagan formally received the report in a brief ceremony at the White House. "We'll simply do what has to be done to make our space program safe and reliable and a renewed source of pride to America," he said, "just as the crew of the space shuttle Challenger would have wanted us to."

Because Americans "don't hide our mistakes, we are not condemned to repeat them," Mr. Reagan said.

The 256-page document, the result of a four-month investigation, called on James C. Fletcher, head of the National Aeronautics and Space Administration, to report to Mr. Reagan in one year on progress made in satisfying the commission's recommendations.

The report's conclusions, "no matter how tough, how pointed, how questioning they may be, are not unexpected and certainly not entirely undeserved," Mr. Fletcher said in a statement. "We at NASA welcome the report."

"Where management is weak, we will strengthen it," he said. "Where engineering or design or process need improving, we will improve them. Where our internal communications are poor, we will see that they get better."

As expected, the commission blamed the Jan. 28 disaster on the rupture of a joint in Challenger's

See NASA, Page 2

BIS Warns Easy Credit May Reignite Inflation

By Carl Gewirtz
International Herald Tribune

BASEL — Central banks are playing with fire and risk reigniting inflation by using easy credit policies to foster economic growth, hold down interest rates and manipulate currency values, the Bank for International Settlements warned Monday.

The bank's annual report supported recent coordinated cuts in interest rates and intervention in the foreign-exchange market, which have driven up the value of the yen and the Deutsche mark against the U.S. dollar by 60 percent in the last 15 months. But the BIS, which acts as a clearing agency for central banks, warned that there were limits to what monetary policy could achieve.

"In the long run, monetary policy influences mainly the overall

The Dow Jones Industrial Average Plunged 45.75 Points, Its Biggest One-Day Loss Ever

rate of inflation," the report said. "To lose sight of this relationship could jeopardize the hard-won gains in the fight against inflation."

Another worldwide round of cuts in interest rate is "neither likely nor desirable," the BIS general manager, Alexandre Lamfalussy said in Basel on Monday.

He said he feared that, given the level of innovation and integration now taking place in world financial markets, the next anti-inflation tightening in monetary policy could drive interest rates dangerously higher.

The report expressed concern about the "quite high" expansion of the money supply "in a number of major industrial countries."

It acknowledged that measuring money-supply growth has become complicated. Innovations in the financial markets have distorted the figures, as has the slowing in inflation, which has changed the speed at which money changes hands.

But in his conclusion, Mr. Lamfalussy warned, "The process by which too much money eventually leads to inflationary price increases will not be suspended because of difficulties in measuring money."

He cited the boom of stock prices and the steep decline of long-term interest rates as evidence that there was too much money around. He also cited "the easy financing of large-scale takeovers, the general ebullience of financial markets and the borrowers' market for all creditworthy international borrowers."

He said Monday that his view remained unchanged despite the rise in market interest rates and the decline in prices on several stock exchanges during the past three weeks. The market developments were "probably a technical reaction," he said.

Jean Godeaux, governor of the central bank of Belgium and chairman of the BIS, concurred. He said at Monday's annual meeting of central bank governors that "there are a number of signs that no general shortage of liquidity exists in the world today."

"It is, of course, essential that economic growth be fostered," he said, adding that it was "desirable that real interest rates should come further down."

"I do not believe, however, that these aims can be furthered by taking risks with monetary policy," he continued. "If they are to be achieved, the central banks must take care to avoid an excessive build-up of liquidity in their economies? Indeed, does such vigilance not remain our first duty?"

Ironically, Mr. Lamfalussy called the collapse in the price of oil

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See BANK, Page 2

Democrats' Target: A Lame Duck Reagan

By Steven V. Roberts
New York Times Service

WASHINGTON — The struggle for control of the Senate involves not only the 34 seats at stake, political leaders and analysts say, but whether the Democrats can turn President Ronald Reagan into a truly lame duck by thwarting him in such areas as judicial appointments and his increasingly aggressive and conservative foreign policy.

Since they are certain to retain control of the House of Representatives, the Democrats, if they won control of the Senate as well, would also be able to advance legislative initiatives in such fields as military spending, the environment, health care and trade that differ sharply from Mr. Reagan's priorities.

Senator Alan K. Simpson of Wyoming, the Republican whip, summed up the common view on Capitol Hill when he said that a Democratic victory would cause Mr. Reagan to have "a very irritating and frustrating two years — that I can assure you."

In all likelihood, the lawmaker added, the president "would become Captain Veto, with his cloak

See SENATE, Page 2

Democrats Now See Hope to Regain Senate

By Paul Taylor
Washington Post Service

WASHINGTON — Former Governor Terry Sanford of North Carolina has turned out to be a poor underdog in his race for the Senate. Every time somebody takes a new poll, he is in front.

Representative Harry M. Reid is unexpectedly ahead in the Senate race in Nevada because the political maneuvering that launched the candidacy of his Republican opponent, Jim Santini, have hurt Republican fund-raising efforts.

Representative John B.reaux did not foresee closing the gap in the Louisiana Senate race while he was being heavily outspent by his opponent, Representative W. Henson Moore. But he is.

All three Democrats are running for one of the seven open Senate seats this year after three Democrats and four Republicans announced they would retire.

For reasons that have to do less with national issues and moods, and more with personalities or the results of primary elections, all three candidates are in better shape at the onset of summer than they had expected.

So are several other Democratic Senate hopefuls around the country, and by extension, so is



Black vigilantes opposed to anti-apartheid radicals patrolled the Crossroads squatter camp near Cape Town on Monday.

5 Killed as Blacks Clash Near Cape Town

By Alan Cowell
New York Times Service

CAPE TOWN — At least five persons were killed and thousands were left homeless Monday after renewed fighting between rival black groups in a part of the Crossroads squatter camp near here.

The fighting and burning of shanty homes sent a pall of gray smoke over the camp from fires fanned by the wind.

Witnesses, including clerics who saw the fighting, said the police seemed to favor a so-called vigilante faction numbering 3,000 avowedly conservative blacks against about 8,000 radical anti-apartheid adversaries, who call themselves comrades.

The official police tally of deaths by early Monday evening stood at five, but medical workers said 14 blacks had died, some of bullet wounds, others hacked to death with scythe-like weapons called pangas.

More than 1,600 people have died in fighting in South Africa since September 1984.

[South Africa's leaders and senior generals held talks Monday in Johannesburg amid indications of an imminent clampdown aimed at

5 Killed as Blacks Clash Near Cape Town

containing rising black unrest. Reuters reported from Johannesburg.

[The debate was held at the white-led government sought to bolster its powers to deal with a potential confrontation on Monday, the 10th anniversary of the 1976 riots in Soweto that spread across the country and cost more than 570 lives in 11 months. Radio South Africa said events leading up to the anniversary "have taken on a more sinister aspect."

[The state-run radio said that "in the circumstances it is inconceivable that pre-emptive action would

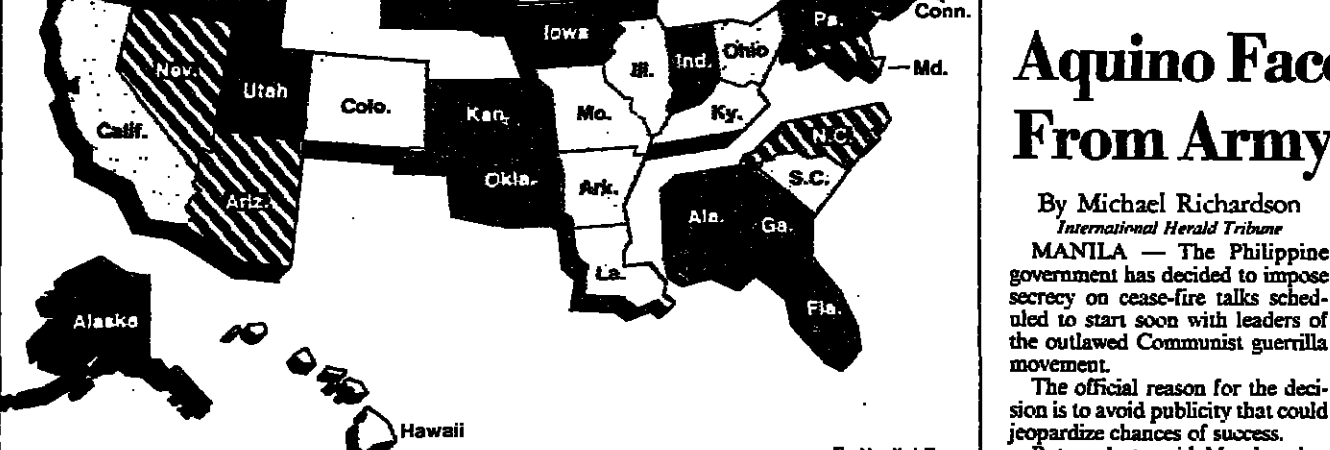
5 Killed as Blacks Clash Near Cape Town

Failure to agree on means to influence South Africa is straining the Commonwealth. Page 2.

not be taken by the forces required to maintain law and order during this period."

The fighting was the second in less than a month in the tangle of Crossroads, South Africa's best-known squatter camp, where more than 100,000 blacks have congregated since 1975 in defiance of laws forbidding them access to white-run cities.

In May, more than 30 persons



5 Killed as Blacks Clash Near Cape Town

the Democratic effort to recapture control of the Senate in the midterm election in November.

Democrats need a gain of four seats to overcome their 47-53 deficit and end a six-year spell as the minority party in the Senate.

With the primary season mostly complete, David Spear, a spokesman for the Republican Majority Fund, a political action fund, said, "I definitely don't like what I'm seeing out there."

These Democratic gains seem unrelated to a national trend or a burning issue. The tax reform issue is bipartisan, and is unlikely to hurt, or help, either party in November.

Because of the abandonment of the unrattified SALT-2 treaty by the administration, some Democrats say they will try to exploit the arms control issue. But it is unlikely to be an issue in Senate campaigns while there is a chance for a postelection U.S.-Soviet summit meeting.

Economic issues are not expected to play a major role, with the U.S. economy still strong, although there are sectors of the economy in deep trouble. Trade issues could help the Democrats in some areas.

Surveys taken in mid-May for the Republican National Committee by a party poll-taker, Richard Wirthlin, find that 61 percent of the electorate think the national economy is as strong or stronger than it was a year ago, and 62 percent say their own economic circumstances have stayed the same or improved in the past year.

Democratic party strategists do not think the 1986 Senate races will be decided by the national mood or by major issues. They say they think

See DEMOCRATS, Page 2

Israel Recalls Envoy in Protest Over Waldheim

By William Claiborne
Washington Post Service

JERUSALEM — Israel recalled its ambassador in Vienna on Monday for consultations after the election of Kurt Waldheim as president of Austria. The recall was a symbolic protest because of Mr. Waldheim's alleged activities under the Nazi regime during World War II.

After a meeting between Prime Minister Shimon Peres and Foreign Minister Yitzhak Shamir, a government spokesman announced that Ambassador Michael Elizar would be recalled immediately and that further cabinet discussions would be held on the question of the level of diplomatic representation in Austria.

Israeli officials said that it was unlikely that any Israeli diplomatic representative would attend the July 8 inauguration of Mr. Waldheim, former secretary-general of the United Nations.

Israel will leave its chargé d'affaires, Uri Pross-Or, in Vienna and take no steps toward reducing the current level of diplomatic representation until consultations have been held with the ambassador, officials said.

It was the first time in 15 years that Israel had recalled an ambassador under such circumstances. Foreign Ministry officials said, Israel established diplomatic relations with Austria in 1948 by placing a consul in Vienna. The representation was raised to the level of embassy in 1959.

In 1973, just before the outbreak of the war with Arabs, Israel briefly recalled its ambassador in Vienna in reaction to a snub of Prime Minister Golda Meir during a visit.

The Israeli government appeared Monday to be trapped between its chagrin over the election of Mr. Waldheim, who Israeli officials said participated in Germany Army atrocities in the Balkans against Jews and Yugoslav Partisans, and its wish to maintain friendly relations with Austria.

Under Chancellor Bruno Kreisky, Austria played a major role as a way station for emigrating Soviet Jews. Austria also assisted in arranging a number of prisoner exchange deals involving Israel and the Palestine Liberation Organization.

A Foreign Ministry spokesman said: "This means we are considering the situation very seriously and that before we decide on a further step, we will consult the ambassador to get his views. I don't know what the next step will be. The decision will not be taken hastily."

Asked whether the deliberations were aimed at distinguishing between Austria's presidency — a largely ceremonial post — and the Austrian government, the Foreign



Fred Sinowatz

President Reagan is sending a message of congratulations to Kurt Waldheim. Page 2.

heim's alleged activities under the Nazi regime during World War II.

Sinowatz Resigns as Chancellor

By James M. Markham
New York Times Service

VIENNA — Chancellor Fred Sinowatz resigned Monday as a result of the political fallout from the election Sunday of Kurt Waldheim, the former United Nations secretary-general, as Austria's next president.

In a shift to the right, the governing Socialist Party named the finance minister, Franz Vranitzky, 48, a former banker, as Mr. Sinowatz's successor as chancellor.

At a news conference, Mr. Vranitzky conceded that the international controversy over Mr. Waldheim's war record and credibility had left "a bad taste" that would have to be eliminated. "We're going to return to business as normal as soon as possible," he said.

The resignation of Mr. Sinowatz amounted to an acknowledgment that Mr. Waldheim's victory over Kurt Steyrer was a severe political setback for the Socialists, who have governed Austria for 16 years. Mr. Waldheim, 67, was the first presidential candidate supported by the conservative People's Party to win an election in postwar Austria.

Socialist sources said that Foreign Minister Leopold Graf also intended to resign because he was unwilling to travel with the new president or defend him abroad. The new foreign minister was expected to be Heinz Fischer, the minister for scientific affairs and a sharp critic of Mr. Waldheim.

Mr. Sinowatz succeeded Bruno Kreisky as chancellor three years ago. Mr. Sinowatz said Monday that he would remain as the Socialist Party chairman and lay the

Sinowatz Resigns as Chancellor

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Aquino Faces Conflicting Pressures From Army, Church on Communists

By Michael Richardson
International Herald Tribune

MANILA — The Philippine government has decided to impose secrecy on cease-fire talks scheduled to start soon with leaders of the outlawed Communist guerrilla movement.

The official reason for the decision is to avoid publicity that could jeopardize chances of success.

But analysts said Monday that the government appeared to be under conflicting pressure. They say leaders of the influential Roman Catholic Church are urging it to spell out amnesty terms to attract rebels from the hills, and military leaders are warning against concessions.

In several statements over the past few days, Defense Minister Juan Ponce Enrile has cautioned that the Communists remain committed to a strategy of overthrowing the government or seizing control by subverting it from within.

Jose Maria Sison, a founding member and former chairman of the Communist Party of the Philippines, proposed last weekend in Singapore that the Aquino administration avoid a costly civil war by including Communist representatives in a ruling coalition and recognizing the guerrillas as part of a "national revolutionary army."

But diplomats said they believed the conditions attached, including removal and possible trial for "crimes against the people" of Mr. Enrile and military commanders, make the proposal unacceptable to the Aquino government.

They said the communists were trying to open up divisions between the civilian government and the armed forces.

Mr. Enrile and the armed forces chief of staff, General Fidel V. Ramos, led a successful military revolt against President Ferdinand E. Marcos in February that helped bring Corason C. Aquino to power as president. Both Mr. Enrile and General Ramos were long-serving appointees of Mr. Marcos.

Joker Arroyo, the presidential executive secretary, said Friday that the persons chosen by the government to negotiate with the Communists were "high caliber" civilians; they did not include military personnel, church representatives or human rights lawyers.

Officials said Mrs. Aquino was determined not to allow the talks to be jeopardized by pressure from rightist or leftist elements supporting her administration.

Church leaders who have been in contact with the Communists in an effort to persuade them to give up the armed struggle have been urging the Aquino government to spell out its amnesty terms.

Cardinal Ricardo Vidal, president of the Catholic Bishops' Conference of the Philippines, said Thursday that progress in the negotiations he and other religious leaders were holding with the rebels would depend on the government's policy on amnesty and rehabilitation for those who gave up. He said that without a firm policy it would be difficult to continue negotiations.

Western analysts said that both the government and the Communists could gain from a cease-fire of up to six months while peace negotiations were held, but that the balance of advantage would probably favor the government.

They said the Communists would be able to use any truce to consolidate their guerrilla forces and, more important, to extend their political influence.

However, the analysts also pointed out that a cease-fire would give Mrs. Aquino an opportunity to consolidate her popularity and give the military time to unite its forces in case the truce broke down.

Mr. Enrile is concerned that elements in the civilian administration may be too willing to make concessions to the Communists, although he has been careful to say that the military continues to accept civilian control.

The defense minister said he was more concerned with the Communists' subversive political activities than the guerrillas' armed offensive.

Mr. Enrile said the Communists' objective at this stage was clear: "To subvert the body politic, the state and the economic system from within; and to erode the people's will to resist through a systematic application of violence and terrorism."

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See AUSTRIA, Page 2

Aquino Faces Conflicting Pressures From Army, Church on Communists

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Aquino Faces Conflicting Pressures From Army, Church on Communists

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- Share prices on the Milan Bourse plummeted an average 9.2 percent. Page 11.

Reagan Sending Letter to Waldheim; U.S. Affirms Close Ties

WASHINGTON — President Ronald Reagan is sending a letter to Kurt Waldheim to congratulate him on his election as president of Austria, and the United States will continue its "close, friendly relations" with Vienna, the White House said Monday.

"The people of Austria have made their choice in a free and democratic election," said Larry Speakes, White House spokesman. "The president will be sending the usual diplomatic letter to the new president of Austria later today."

Mr. Speakes said that because of diplomatic immunity the United States could not bar Mr. Waldheim, former secretary-general of the United Nations, from visiting the United States even if it wanted to.

A chief of state is exempt from a law barring anyone involved in Nazi persecutions, he said.

But a Justice Department spokesman, Terry Eastland, said that Attorney General Edwin Meese 3d would still decide whether Mr. Waldheim should be put on a watch list of people barred from the United States for crimes.

Attorneys for Mr. Waldheim will meet with Justice Department officials this week to argue that he was not involved in Nazi atrocities and should not be put on the watch list, Mr. Eastland said.

A Diversity of Reactions

International press comment on the Waldheim victory, compiled by Reuters in London, ranged from strong hostility in Switzerland to the reaction of the Rome newspaper *Il Messaggero*, which said:

"Waldheim is now president of a neutral, respected and friendly country and should be treated as such."

Mr. Waldheim, who was the UN chief from 1972 to 1982, has denied allegations by the New York-based World Jewish Congress and other groups that he was involved in war crimes while serving in the Balkans during World War II with the German Army.

His triumph in the Austrian voting on Sunday set off sharply differing reactions in West Germany.

President Richard von Weizsäcker sent Mr. Waldheim congratulations, but the message was in

routine diplomatic language and devoid of personal warmth.

A West German opposition party, the Greens, declared that by electing Mr. Waldheim, "the Austrians have set the seal on the biggest scandal of their postwar history."

The ruling Christian Democratic Union said in a statement by its general secretary, Heiner Geissler, that the result was an outstanding success for Austria's conservative People's Party, but it made no reference to Mr. Waldheim.

A leading West German newspaper, *Süddeutsche Zeitung*, said the Austrians had elected a man who personified attempts to gloss over the evils of a Nazi past common to both Germans and Austrians.

In Brussels, diplomatic sources said the 12 nations of the European Community had decided to observe normal diplomatic custom by sending congratulations to Mr. Waldheim.

In Paris, Prime Minister Jacques Chirac, asked to comment, said on television that he had personally seen no positive proof of Mr. Waldheim's implication in Nazi war crimes.

"I must therefore be careful," he said, "not to interfere in the internal policy of a country that seems to have made a democratic decision."

The French minister for human rights, Claude Malhuret, said Monday that he would recommend to the government that France not receive Mr. Waldheim.

The French Foreign Ministry said Monday that no invitation for Mr. Waldheim to visit France was under consideration.

A senior British official said Monday that Britain was unlikely to invite Mr. Waldheim on an official visit. The official, who spoke to *The Associated Press* on condition of anonymity, indicated that the controversy about Mr. Waldheim's alleged Nazi past ruled out a visit in the foreseeable future.

Prime Minister Margaret Thatcher was expected to express "normal courtesies" to Mr. Waldheim about his election, her office said. There was no indication when the message would be sent. The Buckingham Palace said Queen Elizabeth II had not sent a message

and that the decision on this would depend on Foreign Office advice.

Hostile comments about Mr. Waldheim came from British newspapers of both left and right.

The Guardian, which is liberal, said the campaign had stirred up anti-Semitism in Austria, that Mr. Waldheim had been impudently slow to condemn it, and that "the country's standing in the world" had been badly damaged.

The Daily Telegraph, which is conservative, said:

"Waldheim got his United Nations position through the Russians and — though it took a lot of twisting for him to admit this — he is a foreign minister of Austria who is notably unhelpful to their Czechoslovak victims in 1968. Will he now go along clean-nosedly with the Russians as he once went along clean-nosedly with the Nazis?"

Swiss newspapers were almost united in criticism.

The paper *Basler Zeitung* said his victory marked a sad day for Austria and could also weaken the voice of all neutral countries in world affairs.

Journal de Genève said the election result would have serious consequences for Austria's partners, "which will now either have to avoid contact with Mr. Waldheim or, more probably, close their eyes and become accomplices to a long and embarrassing disimulation."

Despite the strong hostility in Swiss newspapers, the Swiss president, Alphonse Esch, congratulated Mr. Waldheim, saying that his countries were "united both through many friendly links and common ideas."

In the Netherlands, Foreign Minister Hans van den Broek said on radio he wondered whether Mr. Waldheim would be able to fully perform his presidential tasks, but added that the democratic wish of the Austrian people had to be respected.

In Dublin, the Irish Times commented that as a result of the Waldheim affair, "Austria now stands a little lower in the world than she previously did."

The Soviet Union has sprung to the defense of Mr. Waldheim, accusing the United States of mounting a smear campaign against him in an effort to influence the elections.

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WORLD BRIEFS

Bonn Cautions Nicaragua on Captives

BONN — West Germany cautions Nicaragua on Monday to avoid actions that might endanger eight West Germans held captive by anti-Sandinista rebels. The request followed warnings that Managua might use force to free the captives.

A spokesman for the Foreign Ministry said West Germany was still involved in negotiations to secure the release of the volunteers who were seized May 17. President Daniel Ortega Saldivara of Nicaragua warned Sunday that he might send troops to free the group if the U.S.-backed rebels failed to release them by Monday evening.

In another development, a White House spokesman confirmed Monday that a freighter from a Soviet port had arrived in Nicaragua, and "the presumption is that it does contain military matériel." The assertion was expected to play a part in the Reagan administration's campaign to provide military aid to the Nicaraguan rebels.

Iranian Telecommunications Cut Off

MANAMA, Bahrain (Reuters) — Iranian telecommunications with the rest of the world were severed Monday after an Iraqi air raid on a satellite ground station.

Iraq reported Sunday that its air force had attacked communication stations at Assad Abad, in southern Iran, leaving them "abandoned and wrecked." Diplomats in the Gulf said the Assad Abad complex housed Iran's largest station for reception and transmission of satellite signals.

Callers as far afield as Tokyo, Hong Kong, Stockholm and London, as well as throughout the Gulf, said Monday that their switchboard operators and telecommunications companies were reporting all lines to Tehran "temporarily suspended," without official explanation.

U.S. Check on Birth Defects Barred

WASHINGTON (AP) — The federal government has no legal authority to require that infants with severe birth defects be provided with life-extending care, the Supreme Court ruled Monday.

By a 5-3 vote, the court handed the Reagan administration a key defeat in ruling that federal regulators have no role to play in Baby Doe cases, a case called because the names of parents and child often are not made public.

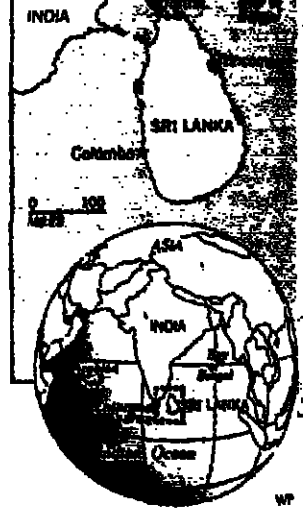
State laws that already regulate the decisions that doctors and parents make about treating such infants were not affected by the ruling.

Sinhalese Flee 10 Besieged Villages

COLOMBO, Sri Lanka (AP) — Hundreds of Sinhalese villagers have fled the northeastern Trincomalee district to escape attacks by Tamil separatists, a newspaper reported Monday.

More than 630 Sinhalese families have left their homes in 10 villages in the area after Tamil extremists killed more than 50 Sinhalese men, women and children last week, *The Island* newspaper said. It said its reporters visited 16 villages and found 10 of them deserted by Sinhalese, the majority of Sri Lanka's 16 million people.

Meanwhile, Indian news agencies reported that about 1,000 people, mostly Tamils, have fled the northern town of Kilinochchi to escape aerial bombing raids and strafing runs by air force planes and helicopters.



Ethiopia Publishes Draft Constitution

ADDIS ABABA, Ethiopia (APF) — The Marxist military authorities who have ruled Ethiopia since 1974 have released a draft constitution providing for an elected parliament. The document apparently was drawn on the Soviet model, and was seen here as a final stage in the process of returning Ethiopia to civilian government after 12 years of military rule.

While the draft announced during the weekend had been expected to detail regional autonomy for Ethiopia's major nationalities, it simply said the country would be a unitary state comprising administrative and autonomous regions, adding that the republic "shall ensure the realization of regional autonomy."

Observers had expected that a clear position on regional autonomy could go some way toward ending the costly civil wars in Ethiopia's northern provinces of Tigre and Eritrea.

For the Record

President Ronald Reagan and King Hussein of Jordan held talks on Middle East security and stability Monday in Washington, but came to no agreement on a new course of action to reactivate the moribund peace process.

Los Angeles prosecutors said Monday that Cathy Evelyn Smith, 38, a former rock singer, would plead guilty to involuntary manslaughter and three lesser charges in the death of the comedian John Belushi, who was found dead of a drug overdose in a hotel room on March 5, 1982. (AP)

The Geneva agency helping Soviet Jewish émigrés resettle issued a new, lower emigration figure Monday of 47 instead of 53 for March, citing an internal error. (AP)

Correction

The first name of the editor of the New Yorker magazine was incorrectly reported in a New York Times article in June 6 editions. The editor is William Shawn.

ISRAEL:

Envoy Recalled

(Continued from Page 1)

Ministry official replied: "This position has nothing to do with Austria as a country and we will do everything possible to maintain friendly relations with Austria."

However, the official said he would not rule out the possibility that even the chargé d'affaires would boycott the inauguration ceremony next month for Mr. Waldheim. The official also said that President Chaim Herzog had not sent the traditional election congratulatory message to Mr. Waldheim.

The recall of the ambassador came amid continuing criticism by Israeli politicians of the Austrian election results.

Sevah Weiss, a member of the Knesset and a survivor of Nazi death camps, who heads a subcommittee investigating Mr. Waldheim's wartime activities, urged the government to break diplomatic relations with Austria.



Michael Elitzur

"An empty Israeli Embassy will be a symbol of no Nazism," the parliamentary deputy said. "We have not only the full right to do it, but it is our responsibility to history to do it because Europe with a Nazi president of Austria is a Nazi Europe like before."

Another Knesset member who survived Nazi camps, Dov Shalansky, said Mr. Waldheim's election was "the continuation of the very big reception which the Austrians made for Adolf Hitler when he came there. It is unthinkable that one of these people who took part in such crimes could be the first citizen of Austria today."

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AUSTRIA: Sinowatz Resigns as Chancellor After Victory by Waldheim

(Continued from Page 1)

groundwork for parliamentary elections next April.

By turning to Mr. Vranitzky, who joined the cabinet two years ago, the Socialists apparently hoped to recapture disillusioned party supporters who had voted for Mr. Waldheim.

Winning 53.9 percent of the 4.7 million votes cast, Mr. Waldheim registered the third best score for a presidential candidate in postwar Austria and the best for a nonincumbent.

Opinion polls showed that almost 10 percent of the Socialists'

normal voters had cast their ballots for Mr. Waldheim; two-thirds of the supporters of the anti-establishment environmental movement in Austria voted for him.

While politicians in various camps concurred that Mr. Waldheim had benefited from a nationalistic backlash touched off by anti-Semitic feeling and the international accusations against him, most also agreed that his strong showing disclosed pervasive dissatisfaction with the Socialists.

Appealing for a restoration of traditional Christian values, Mr. Waldheim also systematically de-

nounced the dominance of Austrian life by party political loyalties and a patronage system that can determine such questions as teaching jobs or apartment allocations.

The Socialist losses also were widely attributed to anger among employees of troubled state-run industries in the country — notably the giant Voest-Alpine industrial concern — who feared that an announced policy of demanding greater efficiency would lead to job losses.

Mr. Vranitzky suggested Monday that he would continue to streamline management at Voest —

a policy that was expected to win applause from the Austrian business community.

The choice of Mr. Vranitzky was seen as a victory for the right wing of the Socialist Party, which in the past had been loyal to Hannes Androsch, who now heads Creditanstalt, the largest bank in the country. A foe of Mr. Kreisky, Mr. Androsch was forced to resign as finance minister in 1980.

The new chancellor had served as Mr. Androsch's aide when he was still a minister and then went on to head the second-largest bank in Austria, the Länderbank.

SENATE: Democrats See Victory as Key to Making Reagan a Lame Duck

(Continued from Page 1)

flying down Pennsylvania Avenue.

But political leaders disagree over whether the voting public wants to see a frustrated president. Both parties are planning to use control of the Senate as a theme in their fall campaigns.

From the Democrats' viewpoint, Senator Robert C. Byrd of West Virginia, the minority leader, said that a change would "pull the Senate back to the center, and away from the agenda of the New Right."

Mr. Simpson, however, said that some Republican candidates will contend: "Do you want the Reagan Revolution to continue through 1987? Or do you want to let the last two years fall into the basement?"

In addition to the legislative issues at stake, political analysts in the capital say that the November elections also will have a major

impact on the presidential election of 1988. The party controlling the Senate, they say, will have an enormous psychological boost, and secure an important forum for promulgating its ideas.

"If the Republicans maintain control of the Senate under this assault, and defeat the historic trend toward the opposition party in an off-year election, I'd say they begin the 1988 presidential campaign with a very strong, positive outlook," said Joe Roststein, a political consultant who works for Democrats.

"But if the Republicans lose the Senate," he said, "you will stop seeing stories about the realignment of the parties. There will be a feeling that the Democratic Party is on the way back."

The stakes for individual aspirants for the presidency are less clear, but most agree that a Republican victory would probably help

Senator Bob Dole of Kansas, the majority leader.

Conversely, a Democratic triumph could boost the visibility of some younger senators who are possible contenders for that party's nomination. Joseph R. Biden Jr. of Delaware, for instance, would probably become chairman of the Judiciary Committee when that panel could be handling contentious judicial appointments. Sam Nunn of Georgia would assume the chairmanship of the Armed Services Committee, and Bill Bradley of New Jersey would have a larger role in the deliberations of the Finance Committee.

To many political leaders and analysts, the fight for the Senate has become increasingly important in light of the administration's greater determination to pursue Mr. Reagan's ideological precepts in his final years in office.

In foreign policy, for instance,

these analysts point to the recent statement by Mr. Reagan that he will abrogate the Strategic Arms Limitation Treaty unless the Soviet Union changes its behavior. They also cite his persistent attempts to aid anti-Communist insurgents in Nicaragua and elsewhere.

In domestic policy, goes this argument, Mr. Reagan's ideological bent is probably most visible in judicial appointments, which have already provoked a backlash on Capitol Hill. The Senate Judiciary Committee last week rejected the nomination of Jefferson B. Sessions 3d of Alabama to a U.S. District Court post.

"I think the administration over-interpreted the 1984 elections," said Kevin Phillips, a Republican political analyst. "They went into ideological mode and are still in it."

Of the 34 Senate seats at stake in November, 22 are held by Republicans. The Republicans currently hold a 53-47 margin in the Senate, so the Democrats must make a net gain of four. If the results end in a tie, the Republicans would organize the chamber because Vice President George Bush would cast the deciding vote. This would be a dismaying prospect for Mr. Bush, who would be obliged to remain in Washington and cast votes on controversial issues rather than be able to campaign for the presidency.

Even if the Democrats hold only a one-vote margin, they would take over the majority leader's office and the chairmanship of all Senate committees, chairmanships that control the flow of Senate business.

DEMOCRATS: Hopes to Regain Senate Are Rising

(Continued from Page 1)

Commissioner Kent Conrad is putting up a tough challenge to Senator Mark Andrews. In Pennsylvania, the winner of a close Democratic primary election, Representative Bob Edgar, represents the Republican Philadelphia suburbs and a small section of the city where Senator Allen Specter ran up the big numbers he needed to win in 1980. In North Carolina, the bitter Republican primary continues to hurt the winner, Representative James T. Broyhill.

But with the exception of the

Idaho race, where Governor John Evans was always expected to be a strong challenger, these other races are in states where, six months ago, the Democrats were thought to have little hope.

The political outlook is not all one-sided.

In Colorado, Representative Ken Kramer, a Republican, saved himself two months of campaigning, hundreds of thousands of dollars and intraparty strife when both his primary opponents dropped out of contention Saturday.

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NASA: Presidential Commission Faults Safety Programs

(Continued from Page 1)

right-side solid-propellant booster rocket. It said the cold weather at the time of launch was a factor, but ruled out sabotage or any other system failure as a contributor to the accident.

The panel recommended a redesign of the booster joint, the establishment of a new NASA safety office to monitor key systems and of independent review boards, the improvement of communications within NASA and the industry, and a study of crew escape systems.

The report also called for fundamental changes in the U.S. space program.

"The nation's reliance on the shuttle as its principal space launch capability created a relentless pressure on NASA to increase the flight rate," it said. "Such reliance on a single launch capability should be avoided in the future."

The commission said that NASA and the booster rocket's manufacturer, Morton Thiokol Inc., had neglected to heed a history of deep concern about the safety of O-ring seals in the joints. The commission's report listed management problems contributing to the accident and said, "The commission concluded that there was a serious flaw in the decision-making process leading up to the launch."

"Even the most cursory examination of the O-ring failure rate 'should have indicated that a serious and potentially disastrous situation was developing,' the report said.

"Not recognizing and reporting this trend can only be described as a failure of the program to preclude an avoidable problem," it said. "If the program had functioned properly, the Challenger accident might have been avoided."

The report said that testimony before the commission "reveals failures in communication that resulted in a decision to launch" the Challenger mission "based on incomplete and sometimes misleading information, a conflict between engineering data and management judgments, and a NASA management structure that permitted in-

ternal flight safety problems to bypass key shuttle managers."

The commission singled out the role of engineers at NASA's Marshall Space Flight Center in Huntsville, Alabama, where the booster program is managed, as a contributing factor to the accident.

"The commission is troubled by what appears to be a propensity of management at Marshall to contain potentially serious problems and to attempt to resolve them internally rather than communicate them forward," the report said.

The report was dedicated to the seven astronauts who were killed. The commission did not address how they may have died, but it did say they had no warning of the explosion that claimed their lives.

Challenger was launched in the coldest temperatures ever for a shuttle launching, when the temperature was 2.2 degrees centigrade or 36 degrees Fahrenheit, despite a unanimous recommendation by Thiokol engineers to delay the launching because they were worried about the effect of cold weather on the boosters.

The decision was overruled by company managers under pressure from NASA.

In a reference to a discussion on



James C. Fletcher

BANK: Inflation Warning

(Continued from Page 1)

— which has helped greatly to reduce official inflation rates — a "mixed blessing" because it masks the continuing increase in domestic prices.

The decline in official inflation rates, he said, could encourage a false sense of security and "give rise to the temptation to ease monetary policy onto a more expansionary course," despite "overwhelming evidence pointing to the risk that in the medium term this will rekindle inflation."

The BIS report took no sides in the dispute over economic policy between the United States and Japan and West Germany. Washington is urging its major allies to accelerate domestic growth through increased budget deficits, while Bonn and Tokyo argue that such policies would be counterproductive.

BIS noted that the fall in oil prices and the appreciation of the yen and the mark should contribute to boosting demand in those countries. "Agreement on coordinated fiscal expansion outside the United States would seem very unlikely," the report said.

Mr. Lamfalussy went further than that on Monday, saying that he saw "no hope of bridging" the views on fiscal policy.

Nevertheless, the widening external imbalances of those three countries — a current-account deficit of \$118 billion in the United States and surpluses of \$50 billion in Japan and \$14 billion in West Germany — were viewed by the bank as major problems.

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Panel Shook Free of NASA Embrace to Reach Own Conclusions

By Maura Dolan and William C. Rempel
Los Angeles Times Service

WASHINGTON — It had been two weeks since the explosion Jan. 28 of the space shuttle Challenger, and the investigating commission named by President Ronald Reagan was conducting one of its early closed sessions.

Allan McDonald, an engineer for the company that built the shuttle's solid rocket boosters, sat with his face in his hands and wept. He had just disclosed to the commission that he and other Morton Thiokol Inc. engineers had raised safety objections only hours before Challenger's ill-fated launch, but were overruled by superiors.

Sally K. Ride, an astronaut and a member of the commission, walked over to Mr. McDonald and hugged him. "You've got a lot of guts," she said. She turned to Roger Boisjoly, another engineer who had testified about the late-night argument, and hugged him, too. He also burst into tears.

For the 13 members of the commission, the engineers' testimony was a pivotal episode that would profoundly transform the commission itself, the character of its investigation and perhaps the future of the U.S. space program.

Instead of confining itself to the technical causes of the accident, the commission would become a surprisingly bold and resourceful instrument, determined to pursue the much more complex task of analyzing and then reshaping the National Aeronautics and Space Administration from top to bottom.

In the immediate aftermath of the explosion, NASA had moved quickly to dominate what would follow, launching its own investigation and — when the presidential commission was appointed — moving to spoon-feed its members. Initially, the commission even depended on NASA for offices.

The revelations of the Morton Thiokol engineers, however, reinforced the commission's determination to shake free of the space

agency's embrace and establish unequivocally that it, not NASA, would deliver the final verdict on the worst space disaster in the nation's history.

"We were shook to our socks," one commissioner recalls. "None of us were really prepared for it." He added, "It became two investigations, one into the accident and the second into NASA management, and the second one has taken more time and effort than the first one. That's the whole story: The accident was a by-product of NASA management."

As the commission released its final report Monday, some members were pessimistic that the space agency will receive the complete overhaul they believe is required. But most are satisfied that their investigation uncovered the most pressing of the dangers and laid a groundwork for reform.

On the road to those accomplishments, the commission — an eclectic, accomplished group of scientists, scholars, industry leaders, astronauts and lawyers — had to overcome initial skepticism in Congress and occasional personal clashes among its members.

Because of the expertise of its members and its mandate to report within 120 days, the commission did much of its own legwork instead of leaning heavily on aides. Members who seemed almost timid in their early questioning of witnesses soon found themselves snapping impatiently when witnesses tried to duck a question or obscured their responses in technical jargon.

Commissioners say NASA officials initially talked down to them and treated them like children who wanted to tag along on the agency's inquiry.

"NASA started off thinking they were going to snow us," said one commissioner who asked not to be identified. "Everybody on that commission knew the system intimately, and when they started telling us, 'This is the shuttle, and this



William P. Rogers, chairman of the presidential commission, at right, with Neil A. Armstrong, the vice chairman.

"When they started telling us, 'This is the shuttle, and this is the front and that is the back,' we didn't take kindly to it."

— A commission member

is the front and that is the back,' we didn't take kindly to it."

The commission, headed by William P. Rogers, a former secretary of state, decided early to move out of NASA headquarters into separate offices of its own. It put together a staff of about 40, including FBI agents, and announced that most of its hearings would be public.

Major General Donald J. Kutyna of the air force, a commissioner who initially favored closed hearings, said he now believes Mr. Rogers was correct in insisting on open meetings.

The evolution was at times painful. Commissioner Joseph F. Sutter, executive vice president of the Boeing Co., said he sometimes felt

like a "Monday morning quarterback." He added, "You don't feel good about beating on other people."

In fact, some NASA officials grew to resent and fear the commission, accusing its members of jumping to conclusions and conducting a witch hunt.

Within the panel, the strong-willed and politically experienced Mr. Rogers clashed with the free-spirited, impatient Robert P. Feynman, a Nobel Prize-winning physicist from the California Institute of Technology. Members recall that Mr. Rogers berated Mr. Feynman after the scientist set out on his own weekend to scour NASA headquarters for documents and charts.

As chairman, Mr. Rogers discovered that he headed a group of individuals who were leaders in their own right and thus capable of being as stubborn and as strong-minded as he.

One commissioner, who agreed to be interviewed only on the condition that he not be identified, complained that the chairman tended to be autocratic and showed a "naïve" impatience to get beyond technical matters that the panelists felt needed further investigation.

Another commissioner said he grew exasperated at times with Ms. Ride, who, while impartial in her probing, nevertheless had been "indoctrinated" by NASA.

Nonetheless, the commissioners found ways to work together. The former test pilot Charles E. (Chuck) Yeager came to only one meeting, but many of the other members put in 60-hour weeks. Friendships were formed and spirited debates rarely became personal arguments.

Commissioners also learned to rely on each other's expertise. One commissioner said that if he personally knew the witnesses or felt technically unsure of the material, he would ask other members to pursue a line of questioning for him at the public meetings.

Although Mr. Rogers irritated some members, he gradually earned the admiration of most. They say he provided tips on how to deal with the news media, rightly insisted that the investigation be open and quelled the cries for an independent, second inquiry on Capitol Hill.

Neil A. Armstrong, the first human to set foot on the moon, became one of the panel's most valuable members. Commissioners describe him as intelligent, diligent and unassuming. Also, said a commissioner, "He was the only one who could keep Rogers in line" when the chairman became too domineering.

The panel had been sworn in only four days when the crucial breakthrough began. At a closed hearing in Washington, Mr. Rogers urged the NASA officials and representatives of Morton Thiokol, builder of the solid rocket boosters, not to hold anything back.

Mr. McDonald, one of the Thiokol engineers who opposed the launch, stepped forward and advised the commissioners that NASA had not given them the whole story.

He told the commission that engineers at Morton Thiokol objected to the launch because of concern that crucial seals, the O-rings, on the rockets would not set properly in cold weather.

The commission asked him to testify along with the other Thiokol engineers at a closed meeting four days later in Florida. It was at this meeting that the engineers broke down and the startled commissioners began to perceive the full dimensions of the shuttle's problems.

In the closed session in Florida, the commission learned that NASA managers had failed to report the engineers' concerns to key agency officials responsible for deciding whether to launch. An extraordinary session was called. The panel quickly decided to ask all NASA officials who participated in the pre-launch discussions to remove themselves from the investigation.

Mr. Rogers informed the White House of his plans. On the following day, he released a statement. The decision-making process that led to Challenger's launch appeared to have been "flawed," he said.

The commission then decided to form panels of four or five commissioners each to visit NASA centers in Florida, Texas and Alabama to interview officials and review documents. The relationship with NASA officials at the centers slowly improved, and commissioners found themselves gaining a new respect for many of them.

"The NASA team that worked with us, once those who were involved in the decision-making process were removed, cooperated very well," Mr. Rogers said. "They answered our every request."

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Failure of Move on South Africa Strains Commonwealth

By Chris Peterson

LONDON — The Commonwealth is facing a crisis over the failure of a special seven-member group to promote a white-black dialogue in South Africa, and Britain's continuing refusal to agree to full-scale economic sanctions.

Disagreement over sanctions has reached the point, diplomatic sources said, where it threatens to tear apart the association that has bound Britain and its former colonies for 37 years.

According to sources close to the Commonwealth Eminent Persons Group, the situation has worsened because its members have concluded that Pretoria is not interested in

meaningful negotiations and that the only way to end apartheid is by sanctions in one form or another.

Diplomats said Britain had little choice now but to accept some form of economic pressure on the white-dominated South African government if it wanted to avoid a virtual breakup of the Commonwealth.

As late as last week, British officials said they were pinning their hopes on the Commonwealth group, which they described as "the only show in town."

The group's creation at the Commonwealth heads of government summit meeting in Nassau last year gave Prime Minister Margaret Thatcher a breathing spell, but the

South African raids last month on Zimbabwe, Zambia and Botswana effectively ruined its mission, which was cut short soon after the attacks.

Britain is virtually alone in the Commonwealth in opposing full sanctions, and Mrs. Thatcher has come under increasing pressure in recent weeks from various directions.

President Kenneth D. Kaunda of Zambia said he intended to pull his nation out of the Commonwealth if sanctions were not applied.

Former Prime Minister Malcolm Fraser of Australia, co-chairman of the Eminent Persons Group, contacted the British deputy prime minister, Lord Whitelaw, over the

weekend in an attempt to sway Mrs. Thatcher toward accepting sanctions, diplomats said.

The British press also has reported that Queen Elizabeth II intervened with Mrs. Thatcher, in what was seen as a highly unusual step underlying the monarch's deep concern for the future of the Commonwealth.

Sources in the Commonwealth mission, which is scheduled to announce its findings at a news conference in London on Thursday, may fall short of formally recommending sanctions but would leave little doubt that economic pressure is seen as the only way forward.

Although the official British line is still one of opposition to sanc-

tions, there has been a noticeable shift in diplomatic language in London that could point to a possible compromise.

Since the South African raids, British officials have been talking privately about a distinction between "sanctions" and "measures."

Prime Minister David Lange of New Zealand, winding up a seven-nation tour of Western Europe, was more specific Monday when he spoke to the British Broadcasting Corporation.

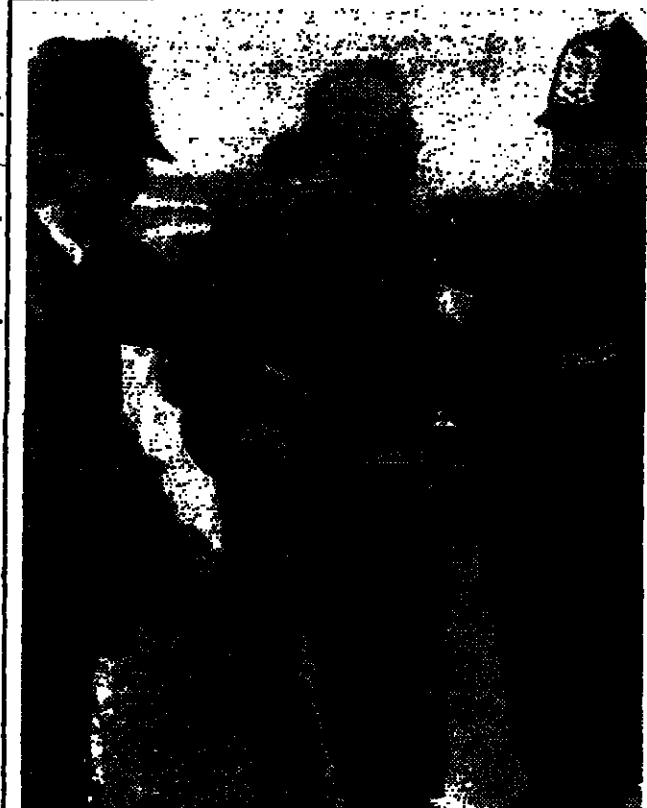
"How do you make changes in South Africa?" he asked. "The answer is apparently not by dialogue. If dialogue has failed, then you move to the menu of reprisals.

Sanctions is a hard word, measures is a better one."

The dilemma confronting Mrs. Thatcher is heightened by the fact that Britain has a large commercial presence in South Africa.

The Commonwealth group's report will be a working paper for an Aug. 3 meeting in London of seven Commonwealth countries.

Diplomats said they expected a stormy meeting, with Mrs. Thatcher facing a delicate balancing act. They said that she had to avoid a clash with the queen while trying, on one hand, to get across her message that sanctions will not help produce democracy and, on the other, avoiding a lasting split within the Commonwealth.



U.K. Police Raid Hippie Convoy

Policemen restrain a hippie after their dawn raid in the New Forest in Hampshire broke up an illegal camp of hundreds of hippies who had been roaming southern England and angering many local people. The police made 42 arrests and impounded 100 vehicles.

Sweden Seeks Clue to Palme's Murder In '76 Slaying of Chilean, Source Says

By Joseph Lelyveld

LONDON — The Stockholm police are reliably understood to have asked the U.S. Federal Bureau of Investigation to open its files on the assassination 10 years ago of an opponent of President Augusto Pinochet of Chile in hopes of finding leads on the killing in February of the Swedish prime minister, Olof Palme.

The only known connection between the Palme case and the 1976 assassination of Orlando Letelier, a former Chilean ambassador to the United States, was supplied by an American citizen, Michael Vernon Townley.

Mr. Townley confessed to having conspired against Mr. Letelier, who was blown up in a car in Washington, on behalf of the Chil-

ean secret police. He eventually testified as a prosecution witness in the case against three Cubans charged in the assassination.

He was reported in 1979 to have told the FBI that he had received orders from his Chilean sponsors to make an attempt on Mr. Palme's life at a 1976 meeting in Madrid of Social Democratic parties.

The Swedish prime minister was cooperating in that period with Mr. Letelier and others in efforts to make an international pariah of the Pinochet regime. He had also been active in making Sweden and other Scandinavian countries a haven for Chilean political refugees.

The reported Chilean plot against Mr. Palme was all but forgotten until the Swedish police were deep into their exhaustive but

frustrating search for motives and suspects in the shooting of the prime minister. Mr. Palme was shot in Stockholm as he walked home from a movie with his wife shortly before midnight on Feb. 28.

A police spokesman in Stockholm declined to confirm the report that a request had been made to the FBI to reopen the Townley files.

Mr. Townley served 62 months in prison for his role in the killings of Letelier and a woman who was in the car with him. In return for his testimony, he was released in 1983 under the Justice Department's witness protection program and given a new identity.

Police Play Down Theory Police cast doubt Monday on reports asserting that Swedish authorities suspected a Chilean link in the murder. The Associated Press reported from Stockholm.

Leif Hallberg, a police spokesman, said that the leads in the investigation "are not inclined in the direction" that the killing was ordered from outside Sweden.

Mr. Hallberg said the murder investigation had advanced and the field of suspects "narrowed gradually," but that current leads "cannot be told to the outside."

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Spanish Boats Blockade French Port

By Chris Peterson

BAYONNE, France — About 100 Spanish fishing boats blockaded the French port of Hendaye on Monday to protest restrictions on their fishing off the French coast, the port authorities said.

The boats, mostly from the Spanish fishing village of Fuentarabia, sailed into the entrance of the port early Monday morning, completely blocking access to the harbor. Two French naval vessels are patrolling the area but no clashes have been reported so far.

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INTERNATIONAL Herald Tribune

Striking a Deal on Debts

The air has been thick for days with rumors that Mexico will default on its foreign debt...

For the debtors, default is a singularly useless option: It would cut off foreign capital for decades...

This is but one example of a debtor country that, whether or not dependent on oil for its earnings, finds itself in difficulty...

When deadlock threatens, there is usually room for a deal. The debtor countries must show a readiness to start dealing...

The basic need, according to the creditors, is for these countries to pursue stringent budget policies...

Unfortunately, ever since Tokyo, the rich nations have been quarreling among themselves about trade, exchange rates, interest rates and who is responsible for doing what...

The Immigrant Spirit

The grand Statue of Liberty celebration scheduled for the Fourth of July in New York will be a tribute to the immigrant heritage of the United States...

have accomplished much," he said. "By showing that perseverance, more than any possession, leads to success, you have reminded us of some of our own values."

But this past weekend in Arlington, Virginia, there was held what some might consider a fresher and more spontaneous celebration of the immigrant spirit...

Actually, not all have been in the United States for the full 10 years since the end of the Vietnam war. One of those honored was a sixth-grader named Nguyen Soc...

"The story of the Vietnamese in America — especially in the American school system — is one of success," U.S. Secretary of Education William Bennett told the assembled parents...

Now, three years later, the administration criticizes Congress for not tripling the SDI budget from \$1 billion in 1984 and insists that funding be raised again, to \$5.4 billion next year...

The Protectionists' Book

If John Le Carré's publisher in the United States were to print copies of "The Perfect Spy" in Britain for sale in the United States, Le Carré would be protected by his U.S. copyright...

reduced the labor component in printing. In 1983, the U.S. International Trade Commission, an independent government agency, concluded that employment gains in the efficient parts of the printing industry would quickly make up for the small number of jobs likely to be lost in books.

This so-called manufacturing clause of the copyright law protects foreigners more than Americans. Worse, it is blatantly protectionist, raising costs to consumers. The clause is often used by other governments to justify failing to crack down on the theft of intellectual property like computer software...

But when the manufacturing clause comes up for renewal July 1, Senator Strom Thurmond proposes making it permanent. His corporate constituents include R.R. Donnelly, the huge printing concern. It long appeared that the general frustration with the trade deficit would make the Thurmond bill veto-proof.

The clause prohibiting imports of copyrighted material by American authors dates to 1891, when industrialists had convinced Congress that America needed to become self-sufficient in manufacturing. It was weakened when copyright law was modernized a decade ago, and the clause expires July 1 unless Congress renews it.

Now the politics have become more interesting. Two years ago, an international panel declared that the manufacturing clause violates U.S. obligations under the General Agreement on Tariffs and Trade. This finding gives Europe the right to retaliate. The community now says it will restrict imports of \$300 million to \$500 million worth of U.S. paper, machinery, tobacco and chemicals. Not surprisingly, that threat has created the first private counterweight to printing interests.

The politics of the issue used to be one-sided. In 1982, the Reagan administration tried to bury the manufacturing clause but was readily defeated. Congress was moved by industry fears that book printing would move to countries with cheaper labor. The basis for this fear has eroded, as automation

The administration is eager for Congress to clean up U.S. trade practices so it can press foreign governments to clean up theirs. The failure to heed the GATT decision on printing makes it difficult to persuade other U.S. interests. Those are national interests; they deserve to take precedence over the fears of a few book printers.

Other Comment

Relations between Britain and China have come a long way since the difficult days beginning in 1983 when disagreements and mutual suspicion over the future of Hong Kong provoked a crisis of confidence in the colony and severe strains between the two countries. This week's visit to Britain

by Hu Yaobang, general secretary of the Chinese Communist Party, adds an extra dimension to the developing relationship. But much depends on Deng Xiaoping's counterrevolution. Too rapid westernization, corruption and crime have led to a number of challenges from conservatives who are opposed to the reforms.

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OPINION

Real-Life Needs in the Favelas Behind Copacabana

By Pranay Gupte

RIO DE JANEIRO — From the balcony of her hilltop house behind the Copacabana district, Jandira Salez commands grand views of this city's modern apartment buildings, bungalows, beaches, lagoons and corniches...

The government and his aides maintain that an effective way to tackle the problems of heavy urbanization and of urban decay is through improving existing housing, transportation, sanitation and water supply. This approach is applicable in much of the Third World, where galloping urbanization is straining municipal services and exacerbating social tensions.

Mrs. Salez lives in Pavãozinho favela, one of Rio's notorious slums, which have two million impoverished inhabitants. There are an estimated 400 favelas in this city of six million. Pavãozinho, where Mrs. Salez, 56, has made her home for the last decade, is one of the worst. Some 10,000 people are packed into the shanties that hug this hill behind Copacabana, and an overwhelming number of them have no legitimate jobs. Some of the favela dwellers engage in drug-running, some in prostitution, some in street crimes such as handbag snatching and necktie-grabbing, which are increasingly prevalent in Rio. Many children grow up with crippling physical disabilities, the result of constant malnutrition and poor medical facilities. Education is not universal, literacy is low.

The favelas are the first major improvement in the five-year history of Pavãozinho. It is also the first favela to grace a favela in Rio. By the end of the decade, according to the governor of the state of Rio, Leonel Brizola, virtually all favelas on hills like these will be served by such a tramway. The state administration, in cooperation with the municipal government, is planning to spend about \$10 million on the favela system and on other improvements for the favelas between now and 1990.

Mrs. Salez, the widowed mother of three girls, lives here because her income as a seamstress will not permit a move to a nicer, safer — and more expensive — area. Until recently she could not even move out of her house because of arthritis. Walking down the steep stairs leading to Copacabana and back up was a physical impossibility. And there are no palan-

quins in the favelas of Rio. But now Mrs. Salez steps out of her house frequently enough, since a new funicular tram car was installed on the steepest hill of Pavãozinho by the state government. Several dozen times each day, and well into the night, a red-and-blue tram car, which can carry 25 passengers at a time, moves up and down the 1,500-foot (450-meter) hill to Pavãozinho. The rides are free.

A Crash Program for SDI Confuses Mirages, Reality

By J. Bennett Johnston

WASHINGTON — The real issue in the debate over "star wars" is not whether the United States should conduct anti-ballistic missile research, but rather the adequate level of effort. The administration says a crash program for research is necessary. Research should continue, but such an accelerated effort would be a serious mistake.

As development budgets go, the expenditure is modest. But even this sum would not have been appropriated if Governor Brizola had not insisted that the favelas of Rio are full-fledged neighborhoods. They sprang up as temporary communities of emigrants from the poorer regions of this vast country of 140 million who came in search of jobs in Rio. Mr. Brizola recognizes that it would be prohibitively expensive and politically impossible to raze these slums. The favelas have become a metaphor for the mushrooming disorganization that haunts much of Latin America and the Third World.

Initially, Mr. Reagan saw no need to prep a crash program for SDI. The Strategic Defense Initiative program. Six days after introducing the SDI concept in March 1983, he told reporters that unlike the Manhattan Project, which developed the atomic bomb, "this is not a crash program." When asked if he wanted funding for SDI research (then about \$1 billion) doubled or tripled, he said, "I don't see any need for that, no."

Americans expect triumphant conclusions from their crash programs. Will the SDI spokesman in 1992 announce: "Now we know! Only another decade and trillion dollars to go!" The administration's justification for a crash program consists of several visions that are more aptly described as mirages. Viewed from a distance, mirages often match our greatest hopes. The vision that the SDI will ultimately "make nuclear weapons obsolete" is such a mirage. Closer examination reveals that the SDI seeks defenses against ballistic missiles but ignores bombers and cruise missiles, the fastest growing element of the Soviet nuclear threat. These weapons, and terrorists, may pass freely beneath the peace shield.

Now, three years later, the administration criticizes Congress for not tripling the SDI budget from \$1 billion in 1984 and insists that funding be raised again, to \$5.4 billion next year. Officials concede that this budget request is aimed at funding SDI research as fast as the technology can be driven. The goal is to learn enough about SDI technology by the early 1990s to make a decision on whether to go ahead with full-scale development of the program.

Another vision of SDI is to counter the vulnerability of U.S. land-based intercontinental ballistic missiles to a Soviet first strike. But such vulnerability will be eliminated when Midgeman, the mobile ICBM, is deployed at least a decade before SDI. Strategic ballistic missiles aboard submarines already are invulnerable. Another justification for the crash program is that the SDI is close to



solving its technical problems. But a Congressional staff report based on interviews with SDI scientists in laboratories and defense facilities details severe technical hurdles — a sharp contrast to what administration officials tell Congress and the public.

Apparently some government officials believe that seemingly intractable scientific problems can be overcome with enthusiasm. Scientists question the feasibility of protecting key SDI satellites from Soviet attack and of distinguishing swarms of Sovi-

et decoys from real warheads in space. Yet enthusiasts in Washington claim the solutions are well in hand. Enthusiasm and hype are now acceptable substitutes for hard science. The SDI program is charging toward a development decision, although SDI officials admit they are taking risks in committing the United States to technologies before research on alternatives is fully explored.

The mirages offered to justify a crash program cannot overcome real concerns about technical risks and

the ultimate cost, especially if the cost requires other military programs to be cut. An SDI program limited to the current level of about \$3 billion will provide the required research for key decisions. A minor delay in a system that cannot be deployed until the next century will yield better research and sounder decisions.

The writer, Democrat of Louisiana, is a member of the Senate Appropriations Committee. He contributed this view to The New York Times.

Duarte's Efforts at Peace Talks Are Being Foiled by U.S. Aid Policy

By Kenneth E. Sharpe

SWARTHMORE, Pennsylvania — "People of El Salvador, I want to end the war," President José Napoleón Duarte said at recent celebrations of his second anniversary in office. That public call to renew the peace talks, stalled 18 months ago, was a welcome message to constituents waiting impatiently for him to deliver on electoral promises to pursue peace through dialogue.

Mr. Duarte had raised hopes when he met with the leftist insurgents in the Farabundo Martí National Liberation Front and the Democratic Revolutionary Front, the guerrillas' political and diplomatic arm, at La Palma in October 1984.

But disappointment grew after the November 1985 elections in Ayacucho. Despite calls by the church for Latin countries and rebels to resume talks, Mr. Duarte refused. Why did he resist negotiations for so long, and how can U.S. policy help talks succeed?

At first glance, the 1984 talks seemed to break down because each side's demands were contradictory. Mr. Duarte and the pragmatists in

the military were willing to offer the left a negotiated surrender. The guerrillas could lay down their arms, accept general amnesty and take part in elections. The FIR-FMLN rebel grouping insisted on power-sharing arrangements to guarantee their security and political leverage in any postwar regime. They proposed a gradual de-escalation, followed by a ceasefire, then a new government that would write a new constitution and reorganize the armed forces before elections were held.

When the Christian Democrats insisted on power-sharing, the insurgents insisted on military opposition. Mr. Duarte, the real constraint went deeper. The military and the right tolerate Mr. Duarte and have been willing to reduce death-squad killings and to open political space for his labor and peasant allies only because those are necessary conditions for U.S. congressional approval of essential military and economic aid.

Mr. Duarte is not to be completely abandoned by his political supporters. He must respond to their demands. But can progress be made? Yes, but only if both parties stop posturing by pitting surrender against power-sharing, and begin to negotiate the small but decisive steps that could create conditions for a broader settlement, such as more prisoner exchanges, mutual limits on kidnapping and de-escalation of the air war in return for a reduction of sabotage and limited cease-fires.

Mr. Duarte's internal leverage does not depend on the U.S. aid that he delivers. But aid comes with strings: The primary goal of the White House, like that of the armed forces, is to continue to block progress on human rights and democratization. Mr. Duarte cannot oppose this counterinsurgency strategy without undermining his already tenuous position.

That strategy has changed the character of the war, but has not ended the bloody military stalemate. And it has put Mr. Duarte in a box: If he does not support military victory

There can be little reform as long as clinics, schools and land reform are sacrificed to military budgets. There is little hope of strengthening civilian control over the military. Because the military is the centerpiece of the strategy, and thus the Reagan administration's most important ally, it can continue to block progress on human rights and democratization. To make matters worse, the austerity strategy insisted on by Washington has held down pay as prices have risen. When labor organizations struck to recover lost buying power, the government cracked down with arrests, torture and disappearances. Mr. Duarte's former supporters were outraged. They saw the economic sacrifices as burdens they had to bear and now Mr. Duarte was meeting their demands with force.

The Necessary Business of Spying

By Flora Lewis

PARIS — The recent spate of spy stories revives issues of what this business is really about and what obligations, if any, it imposes on governments. The most curious revelation comes from Warsaw.

The cynical and sarcastic official spokesman, Jerzy Urban, belied his own leader's repeated claim that the decision to impose martial law in December 1981 was taken only after a breakdown of efforts to come to terms with the then-legal union Solidarity.

Mr. Urban's purpose was to discredit the United States by showing that it could have foiled the plans, which he now admits Warsaw had meticulously prepared, because Washington knew all about them from a high-level spy. U.S. intelligence sources do not deny advance knowledge, but say the United States could do nothing because it did not have the data.

There's eye-witness on both sides here. Mr. Urban goes too far in suggesting that the Reagan administration deliberately protected Warsaw's secret because it expected a "bloody conflict" in Poland after martial law, and thought that preferable to warning Solidarity. Since it now seems the United States did have all the details, it ought to have known how effective the surprise blow was likely to be in paralyzing opposition.

There is often an obsessive tendency in this business to keep secrets for the sake of secrets, to try to get secrets for the sake of getting secrets, without too much concern for the use of information prior to or denied.

Once, when Nikita Khrushchev visited the United States, he told President Eisenhower that since both sides hired so many double agents, they could save a lot by splitting the cost. There is a realistic edge to the joke. To a considerable extent, spies on each side serve to keep the other side in work. But intelligence is important in a dangerous world, and it has a proper purpose: to provide warning, not only of military but of political, economic and other surprises that can do damage to a nation.

All countries seek to find out what they feel they desperately need to know. It is certainly distasteful to learn that Israel, which relies so heavily on U.S. aid money, bought U.S. secrets. But it is distasteful to call it exceptionally sinful.

Not knowing what is really happening with friends can be as harmful as not being warned about foes. There was a massive U.S. intelligence failure in the last years of the shah's reign in Iran, in order to please the shah by not going behind the back of his secret police. Washington didn't even know the shah was terminally ill until after he had died. Iran, nor was it adequately informed on the scale of the opposition and its various movements. U.S. policy would have had to be different, instead of disastrously trying to prop up the dying shah, and the result might well have been a quite different regime from that now in power. A vast number of other people would have been far better off.

It is not unreasonable to seek warning on grave issues, by spying if there's no other way. But the point is to make better policy and protect people. Otherwise, it's expensive dirty tricks without justification.

The writer is an associate professor of political science at Swarthmore College in Pennsylvania and coeditor of "Confronting Revolution: Security Through Diplomacy in Central America." He contributed this comment to the Los Angeles Times.

IN OUR PAGES, 75 AND 50 YEARS AGO

1911: False Prophecies PARIS — [A Herald editorial says:] "The alarmist who makes his appearance in the spring of every year with the confident prediction that 'Americans are not going to Europe this summer,' has proved a poor prophet. The pessimist bases his prophecies on alleged conditions. One favorite is that 'the people are too hard up to travel.' Last year he had the prices of living in America soaring to such heights that nobody could afford to stroll out of his own front yard. He worked the 'living prices' again this spring, but it was not in America but in Europe that he found 'extortion.' The pessimist also located a 'robbers' trust' in Paris, and the few Americans this summer were to give Paris, as well as London, the go-by. Paris has grown dirty, too! This is not entirely fiction, but apparently the condition is keeping nobody away."

1936: Republicans Meet CLEVELAND — Flaying the Roosevelt Administration, Senator Fredrick Steiwer of Oregon, in his keynote address before the Republican National Convention that opened here [on June 9], roused delegates by dedicating the convention, "not only to the purpose of adopting a Republican platform and nominating a Republican president, but to the deeper and thoroughly American purpose of starting a drive to put the American deal into the place now occupied by the self-styled New Deal." He said that "the nation knows that the Administration is equipped with a monstrous reckless propaganda machine operated with the largest money to advance its own ends." A United Press tabulation of possible delegate voting revealed Governor Alfred M. Landon of Kansas as presently running away with the nomination.

OPINION

The Supreme Court Forges A Makeshift Social Justice

By Charles Krauthammer

WASHINGTON — Every time the Supreme Court issues a ruling on affirmative action, the groans begin: "unclear," "fudged," "muddying the waters." Can't the court give a yes or no? It can't, and a good thing, too. Whether the court intended it or not, this issue, which exploded 15 years ago with so much passion and justice on both sides, is being compromised, fudged and muddled into submission. Perhaps even into some rough social consensus.

Consider the recent Supreme Court ruling in the case of a layoff plan in Jackson, Michigan. In order to protect recent black hiring gains, it called for laying off white teachers rather than black teachers with less seniority. A majority on the court held the plan unconstitutional. But the decision yielded no less than five opinions. Yet, sifting through the confusion, a position of reasonable compromise may be emerging.

The Justice Department under the Reagan administration would not be happy with this compromise. Its position is that race-conscious affirmative action should be permitted only to remedy specific cases of past discrimination against specific individuals.

Justice wants to gut Executive Order 11246 mandating preferences for minorities in federal contracting. And it keeps interpreting Supreme Court decisions (the 1984 Memphis firefighters case, now Jackson) as justifying this idea. But this view clearly does not command a majority of the court.

Sandra Day O'Connor, the swing vote in the Jackson case, held that race-consciousness does not require proof of past discrimination. A simple statistical discrepancy — say, a lower proportion of black teachers than blacks available in the hiring pool — would suffice to justify a race-conscious remedy. So (according to the Bakke decision) would a goal as innocuous as "the promotion of racial diversity... in higher education."

What idea, then, is emerging? In Supreme Court talk, it goes by the name of "narrow tailoring." As Justice Lewis Powell wrote, courts "should give particularly intense scrutiny" to "a nonracial approach or a more narrowly tailored racial classification" system to promote affirmative-action goals. A race-conscious remedy must be something of a last resort. And even then, the least pernicious form of race-consciousness should be chosen.

Like what? Everybody has his own idea of what is pernicious and what constitutes narrow tailoring. But consider the pattern. First in Memphis, now in

Jackson, the Supreme Court seems loath to permit affirmative action that lays off people. On the other hand, even Justice Powell, writing for the conservative plurality that struck down the Jackson layoff plan, concludes that "other, less intrusive means of accomplishing similar purposes — such as the adoption of hiring goals — are available."

Why hiring and not firing? First, because firing is too "intrusive" a burden: Losing a job you have is a far greater injury than not getting one you only want. But, second, and in my view more important, because the burden of affirmative action in hiring "is diffused to a considerable extent among society generally" — and thus is socially tolerable.

Laid-off whites are easily identifiable. You can not only count them, you can see them: out of work, angry and in court suing. A disappointed white job applicant, however, is generally far from sure that he would have gotten the job had there been no affirmative action.

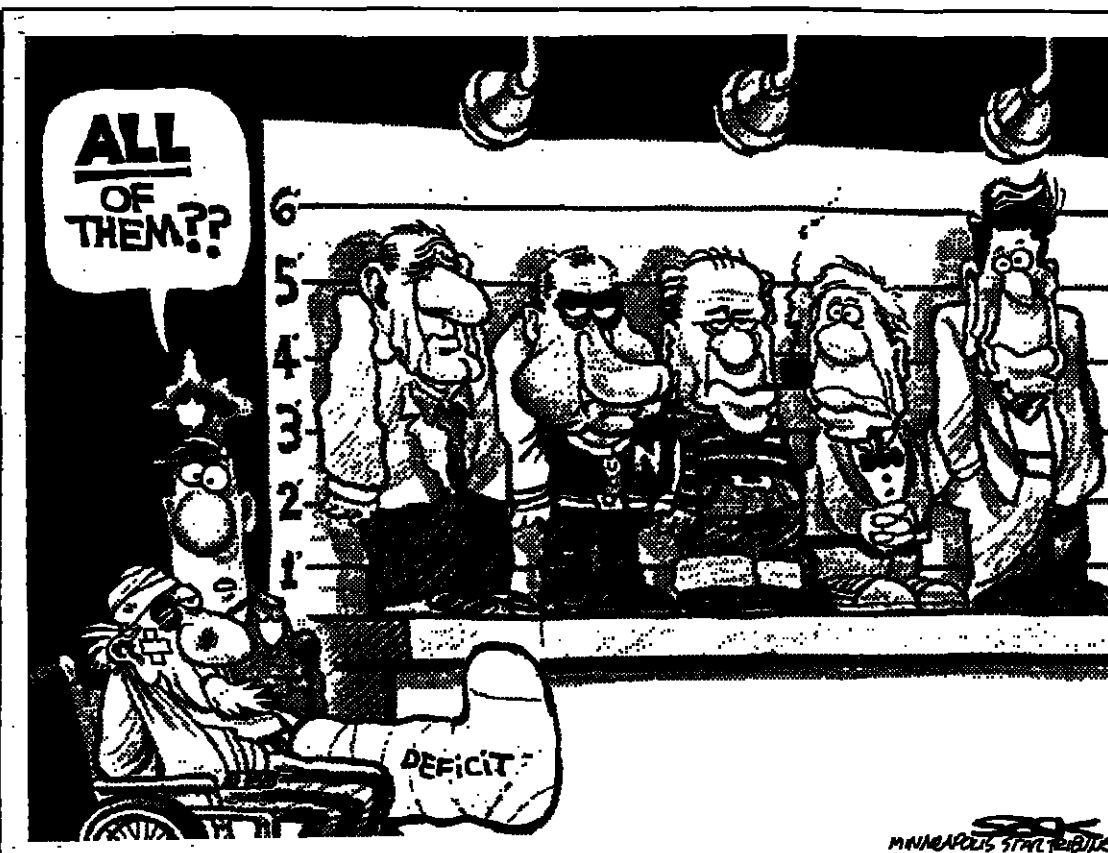
Hiring, yes; firing, no. This suggests a rather odd and elegant rule of thumb: To determine whether reverse discrimination is permitted, the important point is not whether the original (black) victims can be identified — the administration position — but whether the current (white) victims cannot be identified. The idea is diffusion, to produce a truly "societal" remedy for the "societal" injury of racial discrimination, and to cushion blameless individuals from having to pay for the failings of the larger society.

The diffusion principle lies behind many other governmental policies. Consider the debate about the 55-mph speed limit. We know that raising it to pre-1973 levels will cause 2,000 to 4,000 more deaths. Since these are statistical deaths, it is still arguable that the trade-off is reasonable. If we knew in advance, however, the names and addresses of those who would die so that others could enjoy faster interstate deliveries, the question would never even be discussed.

In the Jackson layoff case, we have the names and addresses of those paying the penalty. Hence the court's distaste with the "tailoring" of this remedy. Hence the invocation of the "diffusion" principle. It is an approach to race-conscious affirmative action that is, to be sure, not wholly satisfying. After all, if race-consciousness is wrong in principle, it should be wrong in hiring as well as firing. But diffusion does finesse the competing claims of minorities for redress and of whites for equal treatment. It considers not what remedy is just but what remedy is socially tolerable.

The Supreme Court has two more major affirmative-action cases pending this session. It will be interesting to see whether it can maintain its course of muddling through, wisely.

Washington Post Writers Group



Censorship in Baltimore

Few people were likely to have noticed the small report "Animal Farm Dropped in Baltimore" (May 26) but it concerned one of the pressing issues of our time. The play was dropped after the threat of a number of Eastern European countries to withdraw their entries. Far from being a cosmetic change, as the festival's producer claims, it is allowing these nations, which carefully screen what their own citizens can see, to exercise this same censorship in the West. They rightly fear the power of truth to expose the nature of totalitarianism. Far from keeping the festival "intact," as was claimed, the festival lost a valuable revelation of tyranny, by a nation that is one of America's closest friends, in order to placate countries who practice the very kind of tyranny "Animal Farm" exposes. There is surely a tragic irony in that which George Orwell would have appreciated, and wept over.

EDGAR C. SHERMAN, Heerde, The Netherlands.

No Panic on Wall Street

William Safire's opinion column on insider trading ("Criminal Business: Policing the Sharks of Wall Street," June 5) and the implications of the charges against Dennis Levine are glib, exaggerated and, most important, misinformed. Although the criminal charges against Mr. Levine are serious and the amount

Letters to the Editor

While expressing our thanks to the U.S. Embassy in Nouakchott for their prompt and expert response to our calls for assistance, particularly considering we were dealing with British and not U.S. citizens, it is also fair to record that we received similar support from U.S. authorities elsewhere in the world whenever we have called for help in our work to provide medical assistance to those traveling abroad. We are most grateful. LORD WESTBURY, London.

Anachronistic Nationalism

Regarding the opinion column "Spain: Crumpling 300 Years of Change Into a Decade" (June 2): William Pfaff states that Irish nationalism is "left over from... the Romantic nationalist movements of the early 19th century." This is not so. Irish nationalism is an anachronism left over from the romantic nationalist movements of the 13th century, which only much later culminated in the anachronistic nationalist movements of the early 19th century. Happily, these 19th-century movements included early, post-revolutionary, romantic American (1812) nationalism, which, like the Irish, English, Greek or Basque variety, has been left over for us to enjoy today — however anachronistic early American nationalism might seem to Irish eyes! DEDWYDD JONES, Lausanne.

A Vote of Thanks

I wish to record the thanks of St. John Ambulance to the American authorities in West Africa. By coincidence, twice in recent weeks

Turning Over a New Leaf: How to Weed Out the Past

By Irene Gunther

NEW YORK — My address book was a mess. Its spine was torn, its cover ragged; coffee and ink stained its pages. And it bulged with scraps of paper and business cards I'd carelessly thrown in the back. So I was delighted to receive a new address book for my birthday, a sleek red leather one that lay neat and flat on the corner of my desk.

Delighted, that is, until I thought about transferring the names and numbers. It doesn't seem like a big deal, just

food in family memory. Discarding them was like throwing away a blessing I'd hated since the day I bought it or a pair of shoes that hurt. With only a slight twinge, I eliminated names of people I'd met on vacation and promised to keep in touch with, but hadn't.

My children's addresses and phone numbers almost filled up the Gs by themselves. Kids can really mess up an address book. I could — and did, nostalgically — trace their progress from school to school, job to job, city to city. I enjoyed starting them off again on a neat white page, even though I knew it would remain neat for only a few weeks.

That left the hard part — friends. Friends, I saw, were fickle. They had divorced, remarried, moved away, even disappeared. I felt sad, and a little resentful, when I came to the married couple who had shared an address and telephone number for 30 years, whose children had grown up with mine. Now they have separate numbers to go with separate lives. How could they have done that to me? I remembered all the shared Thanksgivings, the cozy Saturday evenings we had spent together.

There were other friends, the ones who had drifted away, whether through their choice or mine. Reliving the hurts, rehearsing long-past events that created a gulf between us, I wondered who was at fault and regretted again that neither I nor they had been big enough to bridge the gulf. I debated whether to put them in the new book to remind myself to send a Christmas card or face the fact that our friendship was over.

I ended up putting most of them back, just as, each year, I take out of my closet, then replace, the Chinese red silk dress I wore on a romantic evening long ago — and never since — and the outmoded Chanel skirt, bought on a memorable trip through France.

Then there were the ghosts, those who had died and whose names I had never brought myself to cross out. The friend I used to play tennis with who had died of leukemia, the lively and funny woman who had cleaned my house rather badly and loved my children well, the wonderfully eccentric old lady from whom we had rented a house in Connecticut. Clearly, it would have been morbid to transfer them. But eliminating them seemed like an act of betrayal.

Hardest of all, when the decisions were made, was to bring myself to throw the whole mess into the wastepaper basket, to discard 10 years of my life. But when I'd done it, I felt almost relieved. I turned over the new book in my hands, and wondered what new people would come into my life to fill its blank spaces.

The writer, an author, is working on a novel. This article was contributed to The New York Times.

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China, Despite Denials, Is Said To Supply Iran With Weapons

By Daniel Southerland
Washington Post Service

BEIJING — China is selling weapons in large quantities to Iran, diplomats here say, despite repeated denials by the Chinese government.

The diplomats said last week that the weapons sold by China to Iran have increased in quantity and value over the past year or two.

They said they did not have a dollar estimate of the weapons sold, but saw as credible an estimate of \$1.6 billion in recent Chinese sales to Iran appearing in the latest issue of "The Military Balance, 1985-86," published by the International Institute for Strategic Studies in London. The sales were agreed to early last year, the institute said.

Not long ago, estimates of China's total arms sales to all overseas customers came to little more than \$1 billion. But the Chinese have been moving aggressively in the field, selling not only to Middle Eastern countries but also seeking markets throughout the Third World. Their latest target for overseas arms sales appears to be Latin America, but diplomats said they

had not yet had much success in that region.

The institute said that China also had sold weapons to Iraq, which is engaged in a protracted war with Iran, thus making China, like North Korea, a supplier to both sides in the Gulf war.

But the institute did not list China as a "primary supplier" to Iraq. It did list China as a primary supplier to Iran, providing the Iranians with J-6 interceptor jets, tanks, artillery and surface-to-air missiles under an agreement that it said was concluded in March 1985.

The institute said that Iran also received arms, supplies and spare parts from, among others, Israel, North Korea, Eastern Europe, Argentina and Switzerland. It said that Iran was buying war materiel on the open market.

"Some Chinese weapons have been identified in Iranian service," the report said. It also said that Iraq "has apparently received arms from Egypt, the U.S.S.R., China, North Korea, France, Portugal and Brazil."

Chinese weapons have the advantage for Third World nations of being cheaper and easier to operate and maintain than weapons sold by Western nations.

The Chinese have been denying reports of arms sales to Iran since the early 1980s. The latest denial came at a regular press briefing in Beijing on Wednesday. A Chinese Foreign Ministry spokesman, Ma Yuzhen, when asked about the institute's report, recalled earlier denials and said that China "strictly abides by the principle of neutrality in the Iran-Iraq war."

But Western and Asian diplomats in Beijing asserted last autumn that they were certain that China had been selling conventional weapons to Iran for several years. They said the purpose appeared to be twofold: To earn foreign exchange for China's economic modernization program and to assure the Chinese influence in the Middle East.

A businessman in Beijing has said that if the Chinese can continue to increase their overseas arms sales it will place them in a better position to buy sophisticated military equipment from abroad, which they cannot yet produce themselves.

Freed Liberian Urged To Take Her Senate Seat

Agence France-Press

MONROVIA, Liberia — A leading Liberian official has appealed to Ellen Johnson-Sirleaf to take her seat in the national legislature as a "sign of good faith," state television reported. Mrs. Johnson-Sirleaf was freed Friday in an amnesty for prisoners held since the abortive coup of Nov. 12.

Rupel Marshall, superintendent of Montserrado county, which includes Monrovia, said Sunday that such action by Mrs. Johnson-Sirleaf would be "in the spirit of national reconciliation so well manifested" by President Samuel K. Doe's amnesty order.

China reportedly began secretly supplying arms to Iran by way of North Korea sometime after mid-1982. Diplomats said last year that this channel continued to be used, possibly along with others.

By funneling arms through North Korea, the Chinese could deny making any direct arms deliveries to Iran.

Arms deliveries to Iran from China from 1982 to 1984 were said to include fighter planes, tanks, artillery and light infantry weapons. In April 1984, the Chinese Foreign Ministry denied that China was selling arms to Iran by way of North Korea.



Glenn Anderson, brother of Terry Anderson, one of four Americans being held by Islamic fundamentalists in Lebanon, during a videotaped plea for his brother's release.

Brother of Hostage Dies After Plea

Reuters

OCALA, Florida — Glenn Anderson, 46, the cancer-stricken brother of an American hostage who vowed to stay alive until his brother Terry was freed by his Lebanese captors, died Saturday while flying home to his wife and seven children.

Mr. Anderson, who made an emotional plea last Wednesday

for his brother's freedom, died shortly before his flight was to land in Ocala.

In his videotaped appeal from a hospital room in Batavia, New York, he begged for the release of Terry Anderson, an Associated Press correspondent held for 15 months by Islamic fundamentalists. Three other Americans also are being held.

"My father died of cancer, waiting to see Terry. He did not see him," said Mr. Anderson, who was suffering from lung cancer. "Now I have cancer and I made a vow I would not die until I saw Terry."

He added: "That bout is getting very close to the end. Please release him. I wish to see him one more time."

Iranian Guerrillas Say 1,000 One-Party System Is Wrong, Nyerere Tells Zambians

By Richard Bernstein
New York Times Service

PARIS — More than 1,000 members of the main resistance to the Iranian government have left France for an area on the Iran-Iraq border, the group said Monday.

The members of the group, the Mujahidin Khalq, are believed to have departed in the weeks before their leader, Massoud Rajavi, left Paris for Iraq on Saturday, apparently as a result of pressure from the French government.

Mr. Rajavi's departure was seen here as part of an effort to restore normal ties between France and Iran and to help secure the release of French hostages held by Iranian extremist groups in Lebanon.

Nine Frenchmen have been taken hostage in the past year and one is believed to have been executed.

On Saturday, the French police raided Mr. Rajavi's headquarters in Auvers-sur-Oise, a Paris suburb, checking the identity papers of Mujahidin members. Hours later, Mr. Rajavi left by private plane for Iraq.

In a series of negotiations since the end of March, Iran has specified several conditions for the return of normal relations. In addition to the expulsion of Mr. Rajavi, the Iranian demands include the return of a \$1-billion loan made to France during the days of Shah Mohammed Reza Pahlavi and an end to French support for Iraq in the Gulf war.

The Mujahidin said Monday that its 1,000 members who left in the past several weeks would go to an area on the Iran-Iraq border, presumably to join anti-government guerrilla forces that it says it maintains there.

Reuters

LUSAKA, Zambia — Julius K. Nyerere, the former president of Tanzania, said Monday that he believed his decision to make his country a one-party state was a mistake.

He also asserted that a lack of legal opposition had bred complacency.

He told President Kenneth Kaunda of Zambia, who also heads a one-party state, that he regretted the lack of a "built-in challenge" from an opposition party.

Western diplomats expressed surprise at his candid remarks and at the fact that they were broadcast on state-run Zambian television and reported by the official news agency ZANA.

Swiss Leader Apologizes To Gypsies Over Policy

Government Had Backed the Removal Of 600 Children From Their Families

By Thomas W. Netter
New York Times Service

GENEVA — The president of Switzerland has apologized to the nation's 30,000 Gypsies for the actions of a government-backed youth charity that has acknowledged taking more than 600 Gypsy children from their parents between 1926 and 1973 for their "well-being."

The action by President Alphonse Egli last week was an attempt by the government to close what he called a "sad chapter" in Swiss history, involving the charity, called Pro Juventute, which means For Youth.

It also paved the way for an investigation into the placing of gypsy infants in foster homes and institutions under the program, which was called Operation Children of the Road.

"Federal support permitted the removal of the infants from their families," Mr. Egli said in his statement. "I present my regrets and my excuses before Swiss public opinion."

Historians and lawyers who have studied the program said it was a misguided attempt to provide a better life for the children, who were thought to face a bleak future of wandering and vagrancy with their nomadic families.

The program received financial support from the government, and continued for more than 40 years before the charity ended it in 1973.

Although newspapers reports, which often described the program as a form of "kidnapping," were published as early as 1973, little was done to unite the families until recently. A legal complaint was filed May 30 on behalf of the gypsies by a Swiss lawyer, Stephan Frischknecht, and new reports in the press created public pressure, prompting the government to act.

Critics of the program said that many of the children wound up in prisons, mental institutions or juvenile detention centers, and were later

unable to get in touch with their families.

Mr. Egli said the government would seize certain documents held by Pro Juventute and that they would be studied by officials.

"This is an enormously complicated problem," Mr. Frischknecht said. "We don't know where all the children are, if some were adopted, or sent abroad, if some died. The files can tell us that. But it opens the question of how many of the children who are grown-up now want to know where they came from."

The case has created an uproar here in recent weeks. Mr. Frischknecht said that many of the people who were involved in the program are still senior officials in Pro Juventute or in government institutions that housed the children. He said the officials had tried to keep the story from the public.

Iran and Syria Pursue Talks on Beirut Conflict

Reuters

BEIRUT — Syria and Iran pursued peace efforts in Beirut and Damascus on Monday in an effort to stop the fighting at Palestinian camps in Beirut that began nearly three weeks ago.

More than 90 people have died in fighting between Palestinians and Syrian-backed Shiite Muslims, including five who were killed in shelling Sunday night and Monday morning. Twenty were wounded in the shelling.

In Beirut, the conflict was discussed by Deputy Foreign Minister Mohammed Ali Besharati of Iran and Prime Minister Rashid Karami of Lebanon, Beirut Radio reported. "We informed the prime minister that all Iranian officials are deeply saddened by the conflict," Mr. Besharati said.

Mr. Besharati arrived Sunday in Beirut from Damascus, where he discussed the fighting with President Hafez al-Assad of Syria.

Nabil Berri, leader of the Shiite Amal militia, was in Damascus on Monday for talks with Syrian officials. He was expected to be joined by the leaders of Syrian-backed Palestinian groups and Walid Junblat, leader of the Druze Muslim militia in Lebanon.

N.Y. Youths Go on Rampage

United Press International

NEW YORK — About two dozen youths went on a rampage in mid-Manhattan after a pop concert on Sunday, assaulting and robbing elderly tourists and theatergoers along Broadway, the police said. At least 25 persons were arrested and none of the 20 to 25 victims was seriously injured.

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Mikhail S. Gorbachev and his wife, Raisa, joke with Hungarians in Budapest.

Gorbachev Suggests a World System To Aid Victims of Nuclear Accidents

BUDAPEST—Mikhail S. Gorbachev, the Soviet leader, called Monday for the creation of an international legal system to provide medical and material assistance to victims of any future nuclear accidents.

Speaking at the Csepel machine-tool plant on the second day of a visit to Hungary, Mr. Gorbachev said the world had learned many lessons from the April 26 accident at the Chernobyl power plant in the Ukraine.

The reactor accident, which spread radiation over much of Europe and other parts of the world, left 26 persons dead and dozens seriously ill.

Mr. Gorbachev repeated his call for an international forum to coordinate peaceful uses of nuclear energy and said the leading nuclear powers, under the International Atomic Energy Agency, should work for development of a new and "reliable" reactor.

"Particular attention is to be paid to the material and moral-psychological damages caused by the nuclear accident," Mr. Gorbachev said, according to a transcript provided by MTI, the official Hungarian press agency.

"We believe that a legal order should be set up," he said, "under which states would oblige themselves to provide free medical assistance, dwellings and other kinds of financial aid to the victims."

Mr. Gorbachev also warned that the world must develop a reliable system to prevent nuclear terrorism.

He said the Soviet Union was conducting thorough investigations into the Chernobyl accident, adding: "We have taken increased safety measures with all nuclear power plants both in operation and under construction."

After his speech, Mr. Gorbachev went on a walking tour along a fashionable street in central Budapest, accompanied by Janos Kadar, the Hungarian leader.

Mr. Gorbachev's wife, Raisa, and Mr. Kadar's wife, Maria, walked with them, observed by several thousand Budapest residents.

The Soviet leader was holding two days of talks with Hungarian officials before the opening on Tuesday of a conference of the Warsaw Pact political leaders.

Chinese Party Leader Meets With Thatcher

LONDON—Hu Yaobang, leader of the Chinese Communist Party, met Monday with Prime Minister Margaret Thatcher in a session centering on the smooth transfer of Hong Kong to Chinese sovereignty in 1997.

Mr. Hu's visit to Britain is the first stop on a tour of four West European capitals.

British officials said the high profile Britain was giving to the Mr. Hu's visit underlined the relationship that had grown between the two countries during negotiations on the transfer of Hong Kong, which Britain has controlled under a 99-year lease signed in 1898.

Li Peng, a Chinese vice prime minister who is among a 40-member delegation with Mr. Hu, signed a tentative agreement earlier for a \$35-million (\$53-million) program to help Chinese students to study in Britain.

Before his meeting with Mrs. Thatcher, Mr. Hu reviewed an honor guard in the grounds of the Foreign Office in a ceremony normally reserved for visiting heads of state. He will be the guest of Queen Elizabeth II at a luncheon at Buckingham Palace on Wednesday to discuss the queen's scheduled visit to China in October.

British officials said Mr. Hu's talks would deal with the current international economic and political situation, as well as the Hong Kong issue.

Britain wants to further increase its trade with China, where British exports last year reached £396 million, an increase of £80 million over 1984.

Chinese exports to Britain in 1985 amounted to £308 million.

Trade relations were improved in May when the two countries signed an agreement for a £300-million British loan to cover the supply of British goods and services, as well as an accord that would encourage British companies to invest in China.

Mr. Hu is the first leader of the Chinese Communist Party to tour Western Europe. He will also visit France, West Germany and Italy.

Reasons Behind Trip
Daniel Southard of The Washington Post reported earlier from Beijing:

One goal of Mr. Hu's trip is to stress that China is safe for European business investments. His second major aim, according to analysts in Beijing, is to add to his credentials as the successor to Deng Xiaoping, the Chinese leader.

Mr. Hu's visit to Britain was only his second to a Western nation. He has also traveled to Australia.

At some point within the next few years, Mr. Hu, 71, is supposed to take over as the head of a collective leadership. Mr. Deng, 81, has been talking about retiring for some time. He claims to have turned over day-to-day affairs to Mr. Hu and his colleagues, but Mr. Deng clearly still has the final say in many important matters.

One of the major questions facing Western diplomats and investors is whether Mr. Hu has the strength and standing to hold China together and keep Mr. Deng's economic reforms moving.

One concern of Western analysts is that Mr. Hu does not share Mr. Deng's strong military background and thus might have trouble keeping the army in line.

New Nepal Parliament Meets
United Press International

KATMANDU, Nepal—The newly elected parliament met for the first time Monday and set Wednesday for electing a speaker soon after King Birenda appointed five members to the caretaker government.

Civil Guard Killed in Spain
The Associated Press

SAN SEBASTIAN, Spain—A suspected Basque separatist shot and killed a paramilitary civil guard early Monday in Mondragón, a town near this Basque city, the police said.

Hope Still Seen in Seoul In Constitutional Talks

By Susan Chira
New York Times Service

SEOUL—Politicians, intellectuals and diplomats here said that continuing talks on the crucial issue of constitutional revision offer changes that might ease growing political tensions and allow Koreans more say in choosing their government.

They added that although they did not believe a recent surge of violent protest would provoke a broader uprising, failure to forge an acceptable compromise would risk more widespread protest.

"Right now there isn't one clear issue that can serve as a catalyst like a fraudulent election," said a longtime foreign resident. "There's still hope that the question of constitutional revision can be worked out through a process of negotiation and compromise."

In the last few weeks, the government and the opposition have entered an uneasy political truce. On Thursday, the National Assembly opened a special session to discuss constitutional revision.

The opposition leaders insist that the government of President Chun Doo Hwan must demonstrate its commitment to greater political freedom by releasing those detained for political offenses.

In February, the opposition started a petition drive to amend the constitution and permit direct presidential elections. Rallies drew tens of thousands to the streets in largely peaceful protests.

At the same time, however, a more radical opposition has emerged—a loose coalition of students, workers and members of the clergy who seek more fundamental changes and have staged violent protests to back their demands.

Although Western diplomats and government officials estimated that the number of radicals is still small, they said their actions had dramatically altered the political landscape and increased pressures on the elected opposition party.

Arrests at U.S. Embassy
Nine students who tried to enter the U.S. Embassy in Seoul on Sunday were arrested, police and embassy officials said. The Associated Press reported. An official said the incident ended quickly and there were no injuries.

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300 Injured During West German Protests

HAMBURG—About 300 people were injured and 1,000 arrested in West Germany during anti-nuclear protests over the weekend, the police said Monday.

In Hamburg on Sunday, demonstrators stoned police officers, smashed shop windows and burned barricades in side streets. By early Monday, the police had arrested 838 people, most of whom were released after identity checks.

On Saturday, police and border guards clashed with demonstrators in nearby Brokdorf, where a nuclear power station is due to start operating later this year. The police said they arrested about 150 protesters.

In the Bavarian town of Wackersdorf, near the site of a nuclear reprocessing plant, the police arrested 20 protesters Sunday.

The police and protest organizers put the combined injury total at more than 300, including nearly 100 policemen hit by firebombs, stones, ball-bearings and other objects. The responded with truncheons, tear gas and water cannon.

U.S. Coast Guard Bars Beards
BALTIMORE—Admiral Paul A. Yost, the new commander of the Coast Guard, issued an order banning beards for all personnel by Sunday. "All Coast Guard men will be clean-shaven, with the exception of neatly trimmed and military appearing mustaches," the order said.

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SPORTS

Danes' Fluid Play Floods Uruguayans With Goals

International Herald Tribune
NEZAHUALCOYOTL, Mexico — Thank heavens this most Catholic of countries does not ban soccer on the Sabbath.
For the second successive Sunday I have seen art transcend villainy. First it was Brazil outwitting Spanish brutality in

ROB HUGHES

Guadalajara. Now, transcending that, comes Denmark's 6-1 annihilation of Uruguay.

Suddenly it seems not just naive to pray for the game's soul. Suddenly there comes a beauty fit for any continent.

Neza Stadium nestles on the outskirts of Mexico City's mammoth sprawl. It is the crucible of a heart-wrenching slum district, and it may never again be visited by such beautiful or such complete soccer as that of the Danes.

Here, on Latin soil, they utterly bewitched the South American champions. "I should be sad, but I am so happy to have seen it," commented Arnaldo Nardone, a sports writer from Montevideo. "I really hoped my country could win this World Cup, but I have just seen us beaten morally, skillfully, ... beaten heavily in every way. I can write that we lost to one of the best teams on earth."

Nice man, Nardone. Pity his country's soccer players could not acknowledge Denmark's superiority as sportingly.

The struggle between good and evil began 28 seconds after the kickoff. That was all it took for Michael Laudrup, the 21-year-old Juventus forward, to feel the cynical edge of José Batista's studs down his shin.

Foul. Moments later, a Dane fell near the center circle, apparently karate-chopped. How would the Mexican referee deal with such thuggery? Latin assisting Latin?

After five minutes, Señor Antonio Márquez flashed his first yellow card — to the Dane Ivan Nielsen. A most correct refereeing decision, after Nielsen hacked Uruguay's star Enzo Francescoli.

But our suspicious were groundless. Márquez was to prove a completely fair arbiter.

Uruguay had gone a goal down in 10 minutes (the craft of attacking sweeper Morten Olsen and the daring of Laudrup freed Preben Elkjaer for the first of his three goals) when Márquez first demonstrated firm, brave refereeing.

At 13 minutes, Miguel Ángel Bossio took Laudrup at the knee



Preben Elkjaer beating Uruguay's goalie, Fernando Alvez, for the second of his three goals in Denmark's 6-1 victory.

and was booked. Six minutes later, the same Uruguayan crushed Frank Arnesen and, amid an intimidating posse of Uruguayans, Bossio was sent off.

This had been the second deeply satisfying sign that referees are to strike back at the thugs and the cheats. The previous day, an Englishman — a schoolmaster, to boot — had been brave and correct enough to show the yellow card to Mexico's own hyped-up superstar, Hugo Sánchez.

One hundred and ten thousand people in the stadium, and the priceless Sánchez lying poleaxed and pretending on the turf. George Courtney had seen enough play-acting, enough cheating designed to waste time, steal unfair advantage or have opponents sent off. Sánchez now misses Mexico's next match.

Márquez's courageous work had only begun with Bossio's sending off. After 35 minutes, he booked the forward Jorge da Silva for dissent; after 41 minutes, Elkjaer created goal No. 2 for Soren Lerby and after 44 minutes Denmark conceded a penalty.

I do have a small quibble with Márquez. To my eye, Soren Busk obstructed, but did not directly

foul, Francescoli. But that's splitting hairs. Morally, it was a penalty, and Francescoli scored from it.

From then on, 10 Uruguayans were mesmerized by Denmark. Laudrup dismissed questions raised in Italy about his courage when he wove through three defenders' tackles, slipped the goalie and scored after 52 minutes.

He has learned to run directly at defenders where they are most vulnerable — in and around the penalty box. They dare not risk penalties by kicking him there.

Outside is another matter. Laudrup was later hacked into submission with injuries to both legs; Arnesen became another candidate for first aid and Jens Jorn Bertelsen, architect of Denmark's midfield, was fouled by da Silva and suffered what appeared to be torn ligaments in his right ankle.

Yet sweet was the Danes' revenge. Jesper Olsen is some substitute: He rose from the bench to score with almost indecent aplomb from Elkjaer's prompt, and Elkjaer — the one Dane who looks gangly and uncoordinated — scored twice more, once from a run half the length of the field.

The big Verona forward now

has 36 goals in 55 internationals, but off the field he instinctively shares glory: "Three goals against Uruguay — of course it's good for me. But I hope the team continues this type of football."

"We are 22 friends, the team and the substitutes. We came to survive in the toughest group in the first round. It seems we have, and whatever happens we will go home and know we played a nice championship."

It is far more than nice. "The Danes are the best team in this tournament," says the Brazilian manager Tele Santana.

They are also the happiest. Their wives and girlfriends are here, sharing the fun and the aggravation, helping to keep a sense of normality. And their fans, marvelously behaved, are here by the thousands.

Other managers are being drawn to watch the Danish style. It flows to all corners of the field, its players interchange with perplexing improvisation, each seemingly confident and happy wherever the moment finds him.

It is being compared to the "total" soccer of the Netherlands in the 1970s, but where those teams revolved around Johan Cruyff

and Johan Neeskens, this Danish squad of all talents simply seems to enjoy its game from any part of the field.

Omar Borrás, Uruguay's coach, felt "everything went wrong when we were reduced to 10 men. We should have closed ranks, kept the ball, played it differently."

He meant defensively. But to keep the ball you have to win it, and for 90 percent of the game Uruguay couldn't find it.

No tears for Uruguay. But can the Danes keep it up? Will their style be effective in hotter stadiums than the cool, rain-soaked Neza? Will becoming favorites impinge on the pleasure they clearly experience and convey?

Will the combined forces of a Latin tournament allow a team from a nation of 5 million to become the first European winner of a World Cup staged in the Western Hemisphere?

Questions, questions. But Europeans will not fear the dice are quite so loaded. And the final image is of a Danish youth, naked except for pink shorts, laying his flag at the center circle, kneeling and bowing in homage time and again.

Well, after all, it was Sunday.

French, Soviet Teams Win Handily And Advance to 2d Round of Cup

Agence France-Press
LEON, Mexico — France beat Hungary, 3-0, and the Soviet Union stopped Canada, 2-0, on Monday, qualifying the French and Soviet teams for the second round of the World Cup soccer tournament.

France, a World Cup semifinalist in 1982, and the Soviet Union joined Brazil and Denmark as early qualifiers for the 16-team field. Eight of 24 teams will be eliminated at the end of the first round, and Canada is one of them.

Monday's games completed play in the tournament's Group C. Although the Soviet Union and France each had two victories and a tie, the Russians top the group by virtue of goals accumulated in their 6-0 shattering of Hungary. France was followed by Hungary and Canada, which lost all three of its first-round games and did not score.

In Leon, Hungary's offensive pressure held France in its own end of the field for 20 minutes.

But in the 29th minute, the striker Yannick Stopyra took a cross from William Ayache and headed home for the European champions.

Two minutes into the second half, the Hungarians came close to tying the game when László Dajka lashed the ball against the underside of the crossbar and it came down just outside the goal area.

The French collected themselves and, after a close-in Stopyra shot was deflected by the Hungarian goalkeeper Peter Disztl in the 54th minute, Jean Tigana added the second goal at 63 minutes.

The midfielder played a one-two with striker Dominique Rocheteau, who had just come on as a substitute. Tigana went through the Hungarian defense and shot a blistering left-footed drive between the advancing Disztl and the near post.

Rocheteau ended the scoring in the 85th minute after Michel Platini had made a neat crossing pass with the outside of his right foot.

In Irapuato, Canada held the Soviet Union scoreless for 58 minutes before Oleg Blokhin's goal broke the deadlock. Gennadi Litovchenko burst into the penalty area and crossed hard and low for Blokhin, who threw himself between a defender and goalkeeper Tino Lettieri to force the ball home.

Alexander Zavarov scored the second goal 17 minutes later, with the Canadians tiring. He collected a headed pass and lobbed the ball over Lettieri into the net.

Canada had a good scoring chance in the early going when Dale Mitchell, playing his first World Cup game, fired a 22-yard

(20-meter) free kick fractionally over the bar with the Soviet goalkeeper Viktor Chanov beaten.

In the 54th minute, Chanov had to come out desperately to save at

the feet of Canada's Dave Norman. The Russians, expecting an easy game, had made nine changes from the team that started the 1-1 tie with France last Thursday.

the feet of Canada's Dave Norman. The Russians, expecting an easy game, had made nine changes from the team that started the 1-1 tie with France last Thursday.



France's Yannick Stopyra, left, trying to pass Hungary's Imre Garaba. Stopyra scored the first goal in a 3-0 victory.

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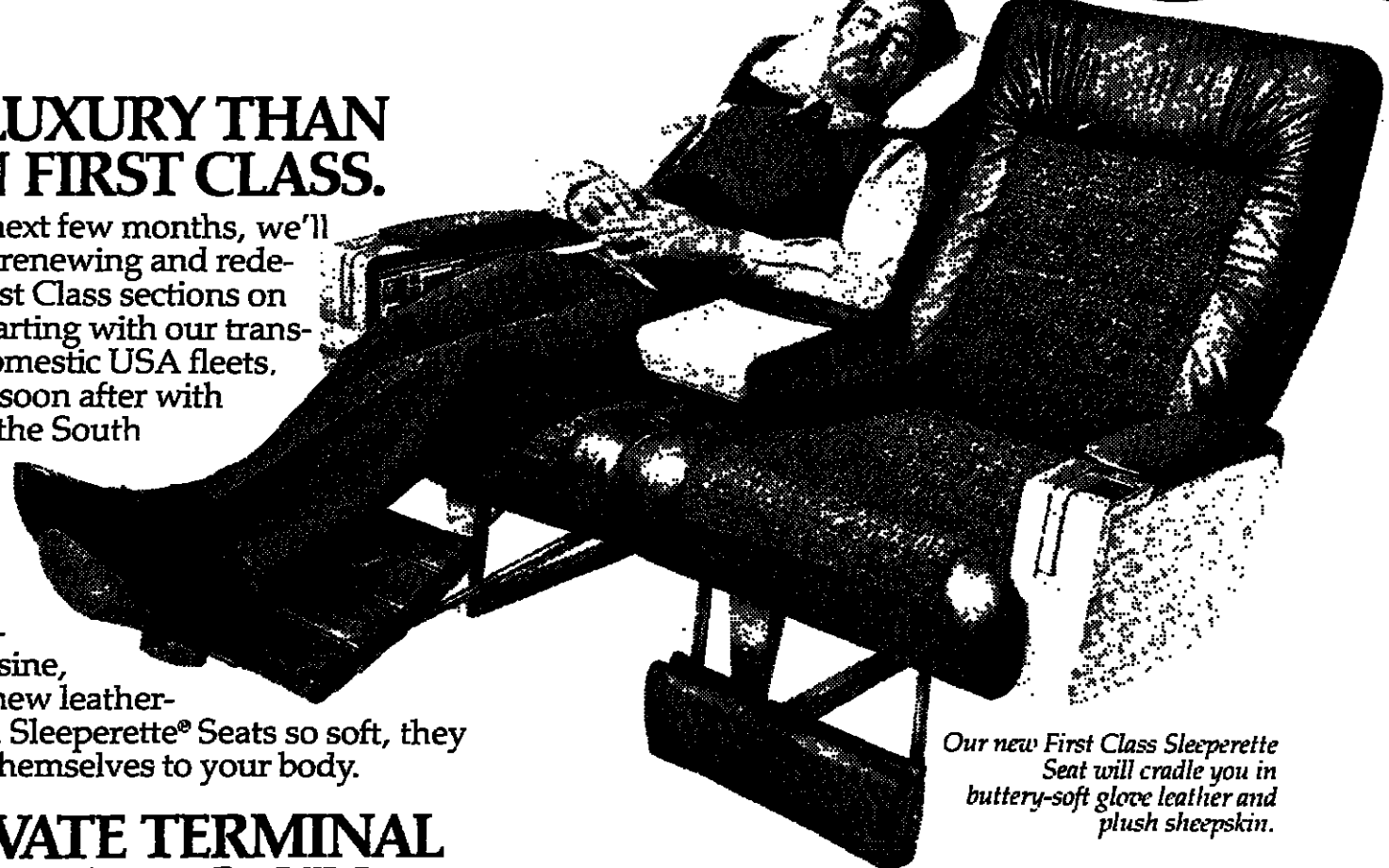
In Clipper, on all our 747s, our new tweed seats will be arranged six-across, as before, to give you more room to work or relax.

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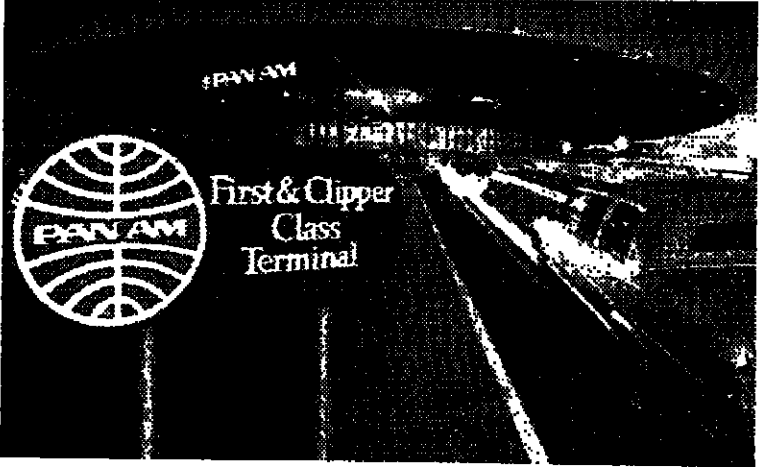
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ARTS / LEISURE

A Princely Birthday in Bavaria

REGENSBURG, West Germany — Prince Johannes von Thurn and Taxis, one of Germany's richest landowners, turned 60 last week and this part of Bavaria sort of declared a national holiday. Three days of festivities started Wednesday with a tails-and-tiara dinner for 80 in the family palace and ended with an 18th-century



Guest-list cover for the ball.

HEBE DORSEY

Part of the fun was guessing who was under all the wigs and three-cornered hats. The prince and princess looked properly regal, he in white-and-gold costume and jeweled cane, she in a pink Marie Antoinette dress, with Marie Antoinette's pearl tiara (a Thurn and Taxis heirloom) in her pink wig. Alfred Taubman, the real estate tycoon and owner of Sotheby's, in gold-embroidered blue velvet, and his wife, Judy, in a pink panniered dress, looked like Louis XVI and Marie Antoinette. Gunther Sachs and his wife, Mira, played it down. He was in blue velvet — "an officer in civilian dress," he said, pointing to his sword — and his wife wore a lighter Marie Antoinette style, more Trianon than Versailles. Some took their costumes seriously. Princess Fyria of Jordan and Sao Schimberger had theirs made by Marc Bohan of Dior's.

butlers in 18th-century costumes — which apparently is their normal working garb. This prompted the prince to tell the hairdresser who was fixing him with a wig for the ball: "The only problem is that I fear people will take me for one of my servants."

Other people had different problems with their wigs. Vanity Fair's correspondent, Bob Colacello, decided he'd better forget it, as "I looked like Shirley Temple after she became an ambassador." He settled for a black tignon. He tried to come as Voltaire, "but I was afraid it would be pretentious." To which the princess said, "But that's what the 18th-century was all about — pretentiousness."

The guest list was a mixture of international jet-setters, including quite a few from New York, a lot of young people and a heavy salting of German aristocracy.

Malcolm Forbes, the chairman of Forbes magazine, and his son Christopher flew in aboard his plane, named "Capitalist Tool." Ahmet Ertegun, chairman of Atlantic Records, also flew in his private plane with his wife, Mica, the designer Mary McFadden and the jewelry designer Kenneth Lane. Ann and Gordon Getty came in time for the ball, as did Lady Rothemann from London, Zsa Zsa Gabor, who was on the list, never showed up.

Forbes and his son were staying at the palace, which seems bigger than Buckingham Palace and which Forbes described as "ever so humble." The Forbeses, father and son, went to the ball in kilts — "a style that spans several centuries." As for Forbes, Forbes pointed to his white hair and said, "I brought my own."

One of the most relaxed moments was going down the Danube, with brunch on board and a visit to the Baroque church of the Benedictine Monastery at Weltenburg. The princess, who said her original ambition was to become an actress, sang a song in honor of her husband: "He's an oldie, but he's a goldie." Ertegun offered to sign her up on the spot.

There was a rumor that Gloria had sold the rights of the party to the "Lifestyles of the Rich and Famous" television program for half a million dollars — about which Forbes remarked: "This is what I call a real capitalist venture."



The Galerie des Champs, one of the newer shopping arcades on the Avenue des Champs-Élysées in Paris.

The Slipping Chic of the Champs-Élysées

By Richard Bernstein
New York Times Service

PARIS — It is midnight on the Avenue des Champs-Élysées and the famed thoroughfare has assumed a kind of motorcycle-gang look. There are plenty of black leather jackets on the broad esplanades of what is still proclaimed by some to be the world's most elegant street.

In the Belle Époque restaurant Fouquet's, however, the crowd is chic, made up less of the people who go to the movies on the Champs-Élysées than of those who make them.

Paris's most famous street presents a mixed picture these days. It has become elegant and shabby at the same time. Many of those who identify with the Champs-Élysées of the good old days say they are fighting a rear-guard battle to keep it from falling into dilapidation.

"It's true, and it's sad to say, that the Champs-Élysées has become a kind of factory for food," said Jenny-Paule de Rabaudy, manager of Fouquet's. "It's true that very little remains of the old Champs-Élysées." She named, among the few remnants of the old elegance, the perfumery Guerlain, Fouquet's and the shoemaker Weston.

"The Champs, like other areas of Paris, has lost a lot of its character," said Jean-Pierre

Silvere, manager of the Drugstore at the head of the street. "The Champs is less different from the rest of Paris than it used to be. The city is becoming like interchangeable parts; there is less variety. Maybe it's because people are all asking for the same things; maybe it's because we live in a society where everybody is looking for standardization."

In establishments with names like Quick Elysées, Monsieur Elysées, Pop-Inn, Hippo-Citroën and Free Time, a lot of the talk is about two related subjects: the threat of terrorism and the relative absence of American tourists. Early this year, terrorist bombings at the Claridge arcade and at another arcade called the Point Show killed two people and wounded 36. There have been no bombings since March, possibly because the two dead are presumed by the police to have been the ones who planted the bombs. But there are more policemen and a mood of caution.

Diagonally across the street from the Drugstore is a Peugeot dealer, then a Volvo dealer, then a Mercedes-Benz showroom. Near that is the Lido supper club, where the show requires the most elaborate stage machinery of any theater in Paris except for the Opéra.

"We were hoping to break all the records this year," said Christian Clerico, manager of the Lido. "But with all the troubles, we won't. Still,

it's not a disaster. What is obvious is that the Americans in groups are not coming. By themselves, however, they come. And maybe if they pass the word that nothing dangerous is happening in Paris, more will come later in the summer."

The Lido was once a swimming pool, with columns and an arched bridge over it. The street was lined with the homes of the rich. Later, the Champs was a family entertainment area, where parents would take their children to one of the large movie houses and then to a restaurant for a late dinner. Now the avenue is a commercial and shopping district by day. The movies are most active at night, when the seediness overwhelms the elegance, making the changes on the street more conspicuous and less welcome.

Some of the changed character of the street is widely attributed to the construction of a subway station attached to Paris's regional railway line, the RER, about 10 years ago.

François Label, mayor of the 8th Arrondissement, where the street is situated, said, "Imagine: If you're young, perhaps unemployed, and living outside of Paris, you can get to the heart of the Champs-Élysées in 15 minutes and then you can be among lots of other people like you. The merchants naturally adapted themselves to the new clientele."

Advertisement for MOVADO The Museum Watch and PEIGNEY watches. Includes an image of a watch and contact information for 7 RUE DE CASTIGLIONE, 75001 PARIS.

Advertisement for Holiday Inn featuring Foon Koppen, Regional Vice-President. Text: "Who at Holiday Inn can offer you the ultimate in hospitality? ... I care about the small things in life. See Foon Koppen. ... I care about the small things in life. Holiday Inn International Asia/Pacific. For further information and reservations, contact your travel agent, any Holiday Inn hotel or Holiday Inn International Sales Office." Includes a list of hotels in Asia/Pacific.

Advertisement for 'Simon Boccanegra' Thrives on Glyndebourne's Small Stage. Text: "By Henry Pleasants. GLYNDEBOURNE, England Opera's first new production of the 1986 season that opened with a revival of last summer's 'Albert Herring' is Verdi's 'Simon Boccanegra,' produced, as was the Britten opera, by Sir Peter Hall. It was obvious in advance that fitting 'Simon Boccanegra' into Glyndebourne's small theater and small stage would pose problems. What was not obvious was that the small theater and small stage would serve most of the opera better than the vast spaces of the major opera houses where it is usually given." Includes a photo of Foon Koppen.

Advertisement for HANAE MORI BOUTIQUE SALES. Text: "FROM TUESDAY, JUNE 10th TO SATURDAY, JUNE 14th. 17-19 Avenue Montaigne - Paris 8th. Tel: (1) 47 23 52 03." Includes a photo of a woman.

Advertisement for Sotheby's Will Auction. Text: "A.A. Milne Manuscripts. The Associated Press. LONDON — Sotheby's will auction on July 10-11 manuscripts relating to 'When We Were Very Young,' the book of verses by A.A. Milne and drawings by Ernest Shepard that introduced Christopher Robin and the prototype of Winnie-the-Pooh in 1924." Includes a photo of a book.

Advertisement for DOONESBURY comic strip. Includes several panels of the comic strip with dialogue.

Large advertisement for Delta Airlines. Text: "DELTA FLIES FROM 6 MAJOR EUROPEAN CITIES TO OVER 100 U.S.A. CITIES COAST-TO-COAST. From New York to Texas, from Florida to California, Delta has frequent flights to just about anywhere in the U.S.A. Catch Delta's nonstop flight from Paris to Atlanta, where you can make easy Delta-to-Delta connections to 100 major cities across the U.S.A. DELTA GETS YOU THERE. Also to the U.S.A. from London, Shannon, Frankfurt, Munich, Stuttgart." Includes an image of a Delta airplane and a map of flight routes.

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BUSINESS/FINANCE

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INTERNATIONAL STOCK MARKETS

Toronto Missed '85 Rally, But Is Catching Up in '86

By BRUCE HAGER

TORONTO — When J. Pearce Bunting talks about the stock market these days, he clearly does so with a lot more confidence. As president of the Toronto Stock Exchange, he presided over one of the worst performing markets last year — only the troubled Singapore exchange did worse. But since the start of the year, Canada's biggest equity market has been enjoying a newfound popularity. The Toronto index rose 17 percent in the first three months, briefly touching a record high of 3,129.11 in March. And foreign interest is growing. American investors poured 855 million Canadian dollars (\$615 million) into the market in the first quarter, followed by increased European attention. "A good number of British brokers are coming to Canada with their research analysts and visiting the firms because they're realizing there are more special situations," Mr. Bunting says.

Exchange's image has improved with investors because stocks are cheap.

The reason the Toronto market has managed to spruce up its image in the eyes of investors is that Canadian stocks are cheap. With signs that European markets are peaking and a measure of uncertainty surrounding markets elsewhere, analysts say that the lagging Toronto exchange looks increasingly attractive. The Toronto Stock Exchange missed out on last year's rally, thanks in part to Canada's chronically weak dollar and an index weighted in natural resources. The market eked out a gain of about 22 percent last year, a far cry from Frankfurt's 84-percent rise. Consequently, the market's average price/earnings multiple likely will be about 12.6 this year and then drift to 11.2 next year because of stronger company earnings, according to Phillips & Drew in London. "Our market has good upside potential and less downside risk than the other markets," notes Leon Tuery, director of market analysis for Dominion Securities Piffield, Canada's largest brokerage house. "My own personal view is that within the next two years, the TSE index will see 5,000."

ASIDE from the available bargains, analysts also have begun to tout other fundamentals. The Progressive Conservative government of Prime Minister Brian Mulroney is given high marks for reversing the perception widely held during the latter tenure of his predecessor, Pierre Elliott Trudeau, that Canada was anti-business. Since coming to office in autumn of 1984, Mr. Mulroney has loosened government controls in the industrial sector and pursued a gradually tighter fiscal policy to shrink Canada's troubling budget deficit. The result has been a stronger currency, lower interest rates, sharply improved trade performance and a better outlook for Canadian corporate earnings.

Currency Rates

Table with columns: Country, Currency, Rate, Date. Includes entries for Amsterdam, Brussels, Frankfurt, London, Milan, New York City, Paris, Tokyo, Zurich, etc.

Interest Rates

Table with columns: Rate, Term, Source. Includes entries for Eurocurrency Deposits, Key Money Rates, and Asian Dollar Deposits.

Table with columns: Rate, Term, Source. Includes entries for U.S. Money Market Funds and Gold prices.

Markets Closed
Stock markets will be closed for holidays Tuesday in Argentina, Brazil, Indonesia, Jordan, Kuwait, Malaysia, Pakistan, Portugal, Turkey, and the United Arab Emirates.

Stocks Plunge In Milan

MIB Index Falls 9.2%, to 1,506

MILAN — Share prices on the Milan Bourse plummeted an average 9.2 percent Monday, one of the sharpest one-day declines ever, in the continuation of a sell-off that began last Wednesday. Dealers said Monday's sell-off battered the shares of most listed companies, including blue-chip industrials and banking and insurance issues. The MIB general index of price movements closed at 1,506, down 152 points from 1,658 on Friday. Monday's fall came in the wake of a steep, though more limited, price drop in each of the last three trading sessions. On May 29, the index lost an unprecedented 9.82 percent over the day.

Dealers said that selling by small domestic investors, worried by the recent erosion in prices and by continuing rumors of a possible tax on stock market transactions, appeared to have helped trigger Monday's fall. But others said it essentially reflected a continued and necessary readjustment to the huge price rises seen earlier this year. At its peak on May 20, the Milan Bourse index reached 2,035 — more than double its level at the beginning of the year. Foreign investors fueled much of the ramp, analysts said.

The rise came despite warnings from the Treasury minister, Giovanni Goria, that the boom was abnormal and risky. Dealers told Reuters they expected the market to continue to be volatile through the rest of this week, with the underlying trend in prices continuing to be downward.

Investors Think Again About China

Westerners Find Currency Woes, Culture Gap

By John F. Burns

NEW YORK TIMES SERVICE BEIJING — To many people, the opening of China to foreign investors at the outset of the 1980s seemed like one of the most promising political and economic developments since World War II. But now, fresh on the heels of American Motors Corp.'s well-publicized problems with its jeep-making venture here, there is a growing sense among Americans and Chinese alike that the lure of investing in China has dimmed. In public, at least, the Chinese continue to stress their successes. According to Chinese government statistics, 2,300 joint ventures between foreign companies and Chinese state enterprises had been approved by the end of 1985, drawing \$6 billion in foreign equity investment to China. Of this, about \$1.4 billion was American, including investments by such Fortune 500 corporations as McDonnell-Douglas, AMC, Pepsi-Cola, Coca-Cola, Atlantic Richfield and Occidental Petroleum.

But now — despite the Chinese decision to meet AMC's threat of a pullout with concessions that at least temporarily resolve the problems — there is widespread doubt among foreign investors about whether their efforts to establish a foothold here are worthwhile. Many are increasingly doubtful that their dream of gaining access to the vast Chinese market will ever materialize. All but a handful of them remain plagued with the same foreign-exchange problems, disputes over contract interpretation, inflexible bureaucracy and high costs that have shadowed AMC. Currency remains the major sticking point. Only a few investors — mainly owners of luxury hotels built to accommodate foreign tourists and business executives, which have guaranteed hard-currency earnings — are untouched by the problem. The 1,000-room Holiday Inn-Lido Hotel in Beijing enjoyed a profit rate of more than 50 percent on revenues last year of nearly \$38 million. Robert Lo, the Singapore millionaire who is the majority owner, is said to be confident that he can pay off his investment in three and a half years, faster than hotels in Hong Kong. But most joint ventures have yet to show a profit in anything other than the inconvertible Chinese currency, the yuan. To some executives the compromise with AMC, which involved a pledge to resume payments to that company in dollars, represented the first hope that the Chinese, after years of promising investors at least a "reasonable" hard-currency profit, might be preparing for more than the half-measures adopted hitherto. To others, the pledge looked like an exceptional fix, made to avoid the ripple effect of a pullout by AMC: "A happy ending? Don't bet on it," said one American executive.

The Chinese, clearly worried, have intensified their efforts to reassure investors, particularly Americans. Prime Minister Zhao Ziyang, meeting last week with a U.S. business group, acknowledged that there were "inconveniences" because of shortcomings in China's legal system, its limited foreign exchange and low industrial efficiency. But he said "the problems will surely be resolved." Still, skepticism persists, partly because of a growing awareness that China and its foreign partners are seeking contradictory ends. Ever mindful of foreign degradations in the century before Communist power, Chinese leaders have always said that foreign investment is a tool to be used for the shortest time necessary to effect a transfer of technology and managerial skills. Their declared purpose is to help China modernize in a manner that ultimately will make it stick, CHINA, Page 18

Largest Sino-American Joint Ventures

Table with columns: U.S. Company, U.S. Investment, U.S. Share, Nature of Project. Includes entries for Atlantic Richfield, John Portman Associates, Occidental Petroleum, Bechtel Companies, Eastman Kodak, E-S Pacific Development, Sheraton Corporation, Empire Trading Company, and American Motors.

The New York Times sticking point. Only a few investors — mainly owners of luxury hotels built to accommodate foreign tourists and business executives, which have guaranteed hard-currency earnings — are untouched by the problem. The Chinese, clearly worried, have intensified their efforts to reassure investors, particularly Americans. Prime Minister Zhao Ziyang, meeting last week with a U.S. business group, acknowledged that there were "inconveniences" because of shortcomings in China's legal system, its limited foreign exchange and low industrial efficiency. But he said "the problems will surely be resolved." Still, skepticism persists, partly because of a growing awareness that China and its foreign partners are seeking contradictory ends. Ever mindful of foreign degradations in the century before Communist power, Chinese leaders have always said that foreign investment is a tool to be used for the shortest time necessary to effect a transfer of technology and managerial skills. Their declared purpose is to help China modernize in a manner that ultimately will make it stick, CHINA, Page 18

Ericsson Reports First Agreement For U.S. Market

By Peter T. Killborn

NEW YORK TIMES SERVICE WASHINGTON — As the U.S. economy enters the second half of its fourth consecutive year of growth, economists and leading business executives say they see signs that expansion will continue through 1987. They concede there are grave problems in the farm belt, the oil region of Texas, and much of the West's mining and timber country. They acknowledge that many manufacturing businesses are weak, the unemployment rate remains above 7 percent and consumer debt is at a record high. But many believe the underlying conditions are better than they have been since before the Vietnam War. Behind their optimism are declines in interest rates, inflation, oil prices and the dollar's value. They also cite prospects that the United States will soon have seen the worst of huge federal budget and foreign trade deficits. "If you look out over the economy, you don't see the pressures building," said William E. Gibson, chief economist at Republic Bank in Dallas. "You don't see bottlenecks. You don't see anything that portends any change. It's not without challenges. But it's a good economy to live in." As it grows, the economy is changing character in some important ways. More stable interest rates, inflation and the like have made it more predictable. The only important unknowns center on U.S. tax and budget policies, executives say. With uncertainty subsiding, it is easier for consumers and business executives to make the plans to spend and invest that help, in turn, to keep the economy rolling. The economy is more disciplined and, in some ways, harsher. Industry cannot raise prices to cover up mistakes as readily as a few years ago. And industry, keeping its belt tight, is less willing to add new workers even as prospects for profits improve. And the economy is more uneven. While most businesses and most individuals are gaining ground, the regions and businesses dominated by oil, agriculture and other natural resources have been losing ground. For them, deflation — falling prices for their goods — has meant decreasing profits, incomes and jobs. The boom in the financial markets and near-record levels in consumer confidence testify to perceptions of the economy's strength. Economists and executives see little that would keep this year's pattern of recession-free, low-inflation growth from extending a fifth or sixth year, or about as far as they dare to hazard a guess. "I'm not worried about anything, honestly," said Bernard M.

Experts See Strong U.S. Economy Through 1987

WASHINGTON — As the U.S. economy enters the second half of its fourth consecutive year of growth, economists and leading business executives say they see signs that expansion will continue through 1987. They concede there are grave problems in the farm belt, the oil region of Texas, and much of the West's mining and timber country. They acknowledge that many manufacturing businesses are weak, the unemployment rate remains above 7 percent and consumer debt is at a record high. But many believe the underlying conditions are better than they have been since before the Vietnam War. Behind their optimism are declines in interest rates, inflation, oil prices and the dollar's value. They also cite prospects that the United States will soon have seen the worst of huge federal budget and foreign trade deficits. "If you look out over the economy, you don't see the pressures building," said William E. Gibson, chief economist at Republic Bank in Dallas. "You don't see bottlenecks. You don't see anything that portends any change. It's not without challenges. But it's a good economy to live in." As it grows, the economy is changing character in some important ways. More stable interest rates, inflation and the like have made it more predictable. The only important unknowns center on U.S. tax and budget policies, executives say. With uncertainty subsiding, it is easier for consumers and business executives to make the plans to spend and invest that help, in turn, to keep the economy rolling. The economy is more disciplined and, in some ways, harsher. Industry cannot raise prices to cover up mistakes as readily as a few years ago. And industry, keeping its belt tight, is less willing to add new workers even as prospects for profits improve. And the economy is more uneven. While most businesses and most individuals are gaining ground, the regions and businesses dominated by oil, agriculture and other natural resources have been losing ground. For them, deflation — falling prices for their goods — has meant decreasing profits, incomes and jobs. The boom in the financial markets and near-record levels in consumer confidence testify to perceptions of the economy's strength. Economists and executives see little that would keep this year's pattern of recession-free, low-inflation growth from extending a fifth or sixth year, or about as far as they dare to hazard a guess. "I'm not worried about anything, honestly," said Bernard M.

World Bank Says India Must Boost Efficiency

NEW DELHI — India must improve industrial efficiency and curb population growth to achieve targets set in the seventh five-year development plan ending in 1990, the World Bank said Monday. The bank's annual report on India welcomed recent government policy changes designed to open the sheltered economy to more domestic and foreign competition. But it said that more should be done to accelerate industrial efficiency because the agriculture and service sectors have only limited potential for rapid growth. The seventh plan aims at raising economic growth to an annual rate of 5 percent from 3.5 percent to 4.0 percent. To ensure that economic gains are not eaten away by a fast multiplying population, the government must curb further increases, the bank said. But while there were many British companies at the Poznan trade fair, ties between Britain and Poland remain cool, as reflected by Poland's decision to postpone a visit to Britain earlier this year by Foreign Minister Marian Orzechowski because Prime Minister Margaret Thatcher refused to see him.

Poland, Banks Reported Close To Debt Accord

Compiled by Our Staff From Dispatches

LONDON — Poland and its creditor banks are very near to an agreement to reschedule about \$800 million of the country's \$31 billion in hard-currency debt, senior banking sources said Monday. Government and banking officials are scheduled to meet Wednesday in Britain in an effort to complete the agreement, the sources said.

The sources, who declined to be identified, told Reuters that Poland met the working party of its commercial bank creditors last week and they came very close to reaching an accord. Poland was scheduled to repay \$800 million in commercial debt this year under restructuring agreements reached in 1981 and 1982. However, it said last week that it would not be able to make the \$230-million principal payment due Tuesday. In late April, Poland met with the working party. Despite disappointment over the lack of progress in those talks, the working party made a proposal to Poland on the rescheduling, which one banker described as containing an element of compromise. Poland had hoped to reschedule 100 percent of the debt, while bankers were offering only 75 percent. (Reuters, IHT)

Britain Lifts Credit Ban Guy Dinmore of Reuters reported from Poznan, Poland: Britain announced Monday that it was lifting a ban on government credits to Warsaw imposed in response to Warsaw's declaration of martial law in 1981. Diplomats said that although the loan offered Monday was relatively small, a revolving credit of about £20 million (\$30 million), it was an important step in normalizing trade relations between the two countries. But Britain's political approach to Poland remained one of "critical dialogue," said a senior diplomat. "Human rights remain an important issue."

The new credit was proposed to Poland's Foreign Trade Minister Andrzej Wojcik by Christopher Roberts, a senior official in Britain's Department of Trade and Industry attending the annual Poznan trade fair that opened Sunday. The loan is conditional on Poland catching up with payments of interest arrears owed to Britain under debt-rescheduling agreements. Mr. Roberts said that Poland did not immediately respond to the offer. Poland's total hard-currency debt, mostly amassed in the 1970s, totals about \$31 billion, and export earnings are not enough to cover even interest payments without rescheduling agreements. The West imposed a blanket ban on government credits to Britain in 1982. Martial law was lifted in July 1983 and within the last year Austria, France and West Germany have resumed limited loans to Warsaw. (Reuters, IHT)

THE Audemars Piguet ROYAL OAK. NOTHING CAN EQUAL THE ORIGINAL. THE Royal Oak. One of the greatest designs of the 20th century. O.J. PERRIN Leather. PARIS: 33, avenue Victor-Hugo - 8, rue Royale - Aéroport Charles de Gaulle. GENEVE: 68, rue du Rhône. CANNES: 6, la Croisette. MEGÈVE: Hôtel Mont-Blanc CRANS-SUR-SIÈRE: «Les Trois Vétérans».

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Vol.	High	Low	Last	Chg.
IBM	117 1/2	117 1/8	117 1/8	+1/8
AT&T	47 1/2	47 1/8	47 1/8	+1/8
Amgen	47 1/2	47 1/8	47 1/8	+1/8
Amgen	47 1/2	47 1/8	47 1/8	+1/8
Amgen	47 1/2	47 1/8	47 1/8	+1/8

NYSE	12,320,000
Amex	1,740,000
OTC	12,000,000
NYSE adv. volume	11,740,000
NYSE adv. volume down	1,580,000
NYSE volume down	7,770,000

High	Low	Close	Chg.
Composite	149.12	147.07	-2.05
Transport	152.14	150.27	-1.87
Finance	152.24	150.27	-1.97
Indust.	152.24	150.27	-1.97

Monday's NYSE Closing
Via The Associated Press

Class	Adv.	Decl.	Unch.
Advanced	1	0	0
Declined	0	1	0
Unchanged	0	0	1

High	Low	Close	Chg.
Composite	111.11	111.11	0.00
Finance	111.11	111.11	0.00
Indust.	111.11	111.11	0.00

Amgen	117 1/2
Amgen	117 1/2
Amgen	117 1/2
Amgen	117 1/2
Amgen	117 1/2

Bonds	Close	Chg.
Utilities	84.4	+0.1
Indust.	84.4	+0.1
Govt	84.4	+0.1

Class	Adv.	Decl.	Unch.
Advanced	1	0	0
Declined	0	1	0
Unchanged	0	0	1

Buy	Sales	Chg.
June 10	2,574,000	+1,231
June 9	2,574,000	+1,231
June 8	2,574,000	+1,231
June 7	2,574,000	+1,231
June 6	2,574,000	+1,231

Open	High	Low	Last	Chg.
Indus	149.12	147.07	147.07	-2.05
Trans	152.14	150.27	150.27	-1.87
Comp	152.24	150.27	150.27	-1.97

High	Low	Close	Chg.
Indust.	226.0	226.0	0.0
Utilities	226.0	226.0	0.0
Composite	226.0	226.0	0.0

Class	Adv.	Decl.	Unch.
Advanced	1	0	0
Declined	0	1	0
Unchanged	0	0	1

High	Low	Close	Chg.
AMEX	117 1/2	117 1/8	-1/8

Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere.

Dow Jones Falls a Record 45.75

NEW YORK — The Dow Jones industrial average incurred its biggest one-day point loss ever Monday as prices plunged on the New York Stock Exchange. Trading volume was moderate.

The Dow Jones industrial average, which rose 6.46 to a record high of 1,885.90 Friday, was down 45.75 to 1,840.15 at the NYSE closed.

The drop topped the Dow's previous record point loss: a 41.91-point decline on April 30.

The percentage drop of about 2.5 percent was mild, however, compared with the 12.8-percent record of Oct. 28, 1929.

Monday's retreat was broad-based, with declines routing gains by a 6-to-1 margin among the 1,960 issues crossing the NYSE tape at 4 P.M. EDT.

Big Board volume was about 124 million, up from 119.9 million shares traded on Friday.

Psychology grew bearish as traders decided the outlook for earnings and interest rates does not justify the record gains.

Some stocks worked higher. MeraBank, an Arizona-based thrift, agreed to be bought at \$51 a share by AZP Group, and gained 6 1/2 to 46 1/2. In sympathy, Western Savings & Loan rose 1 1/2 to 24. Olin jumped 2 1/2 to 46 1/2, after announcing a plan to buy back shares, and Saga, agreeing to a takeover by Marriott, rose 2 to 39 1/2.

Elsewhere, there were few bright spots. Among leading actives, Pacific Gas & Electric fell 1/4 to 22 1/2. Another utility, Gulf States Utilities, slid 1 1/2 to 8 1/4, after it omitted its dividend. IBM slumped 3/4 to 116 3/4 in a generally weak technology segment. ITT fell 2 1/4 to 44.

"Clearly, people are finally realizing that the tax reform bill may hurt after tax profits," said Jesse Abraham, an economist with Data Resources. "People may be waking up to that."

Some initially had projected a favorable impact on stocks if the tax reform passes, since the bill attempts to steer interest rates lower. But a rise in corporate taxes is certain to extract some sort of penalty from companies' bottom lines, Mr. Abraham said.

Recently, sharp gains were made by retailing and media concerns, owing to favorable tax bill interpretations. But thus far, little negative influence has been registered.

"Skepticism on lower interest rates and rising inflation has added a note of fear," said Monte Gordon, research director of Dreyfus Corp. "The market has been clinging to the diminishing hope that the second half would be good. Now it's got its feet planted firmly in mid-air."

A near-term snap back upward is not expected, analysts said. But a recovery is likely over the longer term.

"The market, having come as long a ways as it did, was due for a correction," said Steven Emborn of Goldman Sachs. "My sense is that stocks will move higher over the next one to three months, as long as bonds don't deteriorate too much."

"I've been saying since 1,800 (on the Dow index) that the market is running ahead of itself on fundamentals," said Alfred Harris of Josephthal & Co. in St. Louis.

One of the biggest negatives he sees is a spotty economy, with energy, steel and commercial building among the sore spots. In addition, some ailing industries such as steel will be hurt by proposed tax changes now being discussed in the U.S. Senate.

12 Month High	Low	Stock	Div. Yld.	PE	52 Week High	Low	Close	Chg.
12	12	AAR	1.00	10	12	12	12	0
13	13	ADD	1.00	10	13	13	13	0
14	14	ADG	1.00	10	14	14	14	0
15	15	ADK	1.00	10	15	15	15	0
16	16	ADP	1.00	10	16	16	16	0
17	17	ADQ	1.00	10	17	17	17	0
18	18	ADT	1.00	10	18	18	18	0
19	19	ADU	1.00	10	19	19	19	0
20	20	ADV	1.00	10	20	20	20	0
21	21	ADW	1.00	10	21	21	21	0
22	22	ADY	1.00	10	22	22	22	0
23	23	ADZ	1.00	10	23	23	23	0
24	24	ADAA	1.00	10	24	24	24	0
25	25	ADAB	1.00	10	25	25	25	0
26	26	ADAC	1.00	10	26	26	26	0
27	27	ADAD	1.00	10	27	27	27	0
28	28	ADAE	1.00	10	28	28	28	0
29	29	ADAF	1.00	10	29	29	29	0
30	30	ADAG	1.00	10	30	30	30	0
31	31	ADAH	1.00	10	31	31	31	0
32	32	ADAI	1.00	10	32	32	32	0
33	33	ADAJ	1.00	10	33	33	33	0
34	34	ADAK	1.00	10	34	34	34	0
35	35	ADAL	1.00	10	35	35	35	0
36	36	ADAM	1.00	10	36	36	36	0
37	37	ADAN	1.00	10	37	37	37	0
38	38	ADAO	1.00	10	38	38	38	0
39	39	ADAP	1.00	10	39	39	39	0
40	40	ADAQ	1.00	10	40	40	40	0
41	41	ADAR	1.00	10	41	41	41	0
42	42	ADAS	1.00	10	42	42	42	0
43	43	ADAT	1.00	10	43	43	43	0
44	44	ADAU	1.00	10	44	44	44	0
45	45	ADAV	1.00	10	45	45	45	0
46	46	ADAW	1.00	10	46	46	46	0
47	47	ADAX	1.00	10	47	47	47	0
48	48	ADAY	1.00	10	48	48	48	0
49	49	ADAZ	1.00	10	49	49	49	0
50	50	ADBA	1.00	10	50	50	50	0
51	51	ADBB	1.00	10	51	51	51	0
52	52	ADBC	1.00	10	52	52	52	0
53	53	ADBD	1.00	10	53	53	53	0
54	54	ADBE	1.00	10	54	54	54	0
55	55	ADBF	1.00	10	55	55	55	0
56	56	ADBG	1.00	10	56	56	56	0
57	57	ADBH	1.00	10	57	57	57	0
58	58	ADBI	1.00	10	58	58	58	0
59	59	ADBJ	1.00	10	59	59	59	0
60	60	ADBK	1.00	10	60	60	60	0
61	61	ADBL	1.00	10	61	61	61	0
62	62	ADBM	1.00	10	62	62	62	0
63	63	ADBN	1.00	10	63	63	63	0
64	64	ADBO	1.00	10	64	64	64	0
65	65	ADBP	1.00	10	65	65	65	0
66	66	ADBQ	1.00	10	66	66	66	0
67	67	ADBR	1.00	10	67	67	67	0
68	68	ADBS	1.00	10	68	68	68	0
69	69	ADBT	1.00	10	69	69	69	0
70	70	ADBU	1.00	10	70	70	70	0
71	71	ADBV	1.00	10	71	71	71	0
72	72	ADBW	1.00	10	72	72	72	0
73	73	ADBX	1.00	10	73	73	73	0
74	74	ADBY	1.00	10	74	74	74	0
75	75	ADBZ	1.00	10	75	75	75	0
76	76	ADCA	1.00	10	76	76	76	0
77	77	ADCB	1.00	10	77	77	77	0
78	78	ADCC	1.00	10	78	78	78	0
79	79	ADCD	1.00	10	79	79	79	0
80	80	ADCE	1.00	10	80	80	80	0
81	81	ADCF	1.00	10	81	81	81	0
82	82	ADCG	1.00	10	82	82	82	0
83	83	ADCH	1.00	10	83	83	83	0
84	84	ADCI	1.00	10	84	84	84	0
85	85	ADCK	1.00	10	85	85	85	0
86	86	ADCL	1.00	10	86	86	86	0
87	87	ADCM	1.00	10	87	87	87	0
88	88	ADCN	1.00	10	88	88	88	0
89	89	ADCO	1.00	10	89	89	89	0
90	90	ADCP	1.00	10	90	90	90	0
91	91	ADCQ	1.00	10	91	91	91	0
92	92	ADCR	1.00	10	92	92	92	0
93	93	ADCS	1.00	10	93	93	93	0
94	94	ADCT	1.00	10	94	94	94	0
95	95	ADCU	1.00	10	95	95	95	0
96	96	ADCV	1.00	10	96	96	96	0
97	97	ADCW	1.00	10	97	97	97	0
98	98	ADCX	1.00	10	98	98	98	0
99	99	ADCY	1.00	10	99	99	99	0
100	100	AD CZ	1.00	10	100	100	100	0

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101	101	ADDA	1.00	10	101	101	101	0
102	102	ADDB	1.00	10	102	102	102	0
103	103	ADDC	1.00	10	103	103	103	0
104	104	ADDD	1.00	10	104	104	104	0
105	105	ADDE	1.00	10	105	105	105	0
106	106	ADDF	1.00	10	106	106	106	0
107	107	ADDG	1.00	10	107	107	107	0
108	108	ADDH	1.00	10	108	108	108	0
109	109	ADDI	1.00	10	109	109	109	0
110	110	ADDJ	1.00	10	110	110	110	0
111	111	ADDK	1.00	10	111	111	111	0
112	112	ADDL	1.00	10	112	112	112	0
113	113	ADDM	1.00	10	113	113	113	0
114	114	ADDN	1.00	10	114	114	114	0
115	115	ADDO	1.00	10	115	115	115	0
116	116	ADDP	1.00	10	116	116	116	0
117	117	ADDQ	1.00	10	117	117	117	0
118	118	ADDR	1.00	10	118	118	118	0
119	119	ADDS	1.00	10	119	119	119	0
120	120	ADDT	1.00	10	120	120	120	0
121	121	ADDU	1.00	10	121	121	121	0
122	122	ADDV	1.00	10	122	122	122	0
123	123	ADDW	1.00	10	123	123	123	0
124	124	ADDX	1.00	10	124	124	124	0
125	125	ADDY	1.00	10	125	125	125	0
126	126							

Even if something inside it stops, it goes.

In the past, if you needed a fault-tolerant computer, you had to make certain sacrifices.

Namely speed and economy.

One fault-tolerant system tied up two processors to do one processor's job. And the other depended on software that slowed everything down.

Well, NCR has invented a new system that changes that.

It's the NCR 9800.

Set up a 9800 for fault-tolerance and, if a module fails, the other modules take over for it while continuing to do their own work.

The 9800 keeps running during a processor failure, or software failure.

It even keeps running during routine maintenance and upgrading.

What's more, critical files can be duplicated, so even if a disk fails, your files are available.

The NCR 9800 is built with field-proven 32-bit VLSI technology that has fewer components than conventional technology. So the chance of a failure is very slim.

Because if something's not there, it can't break.

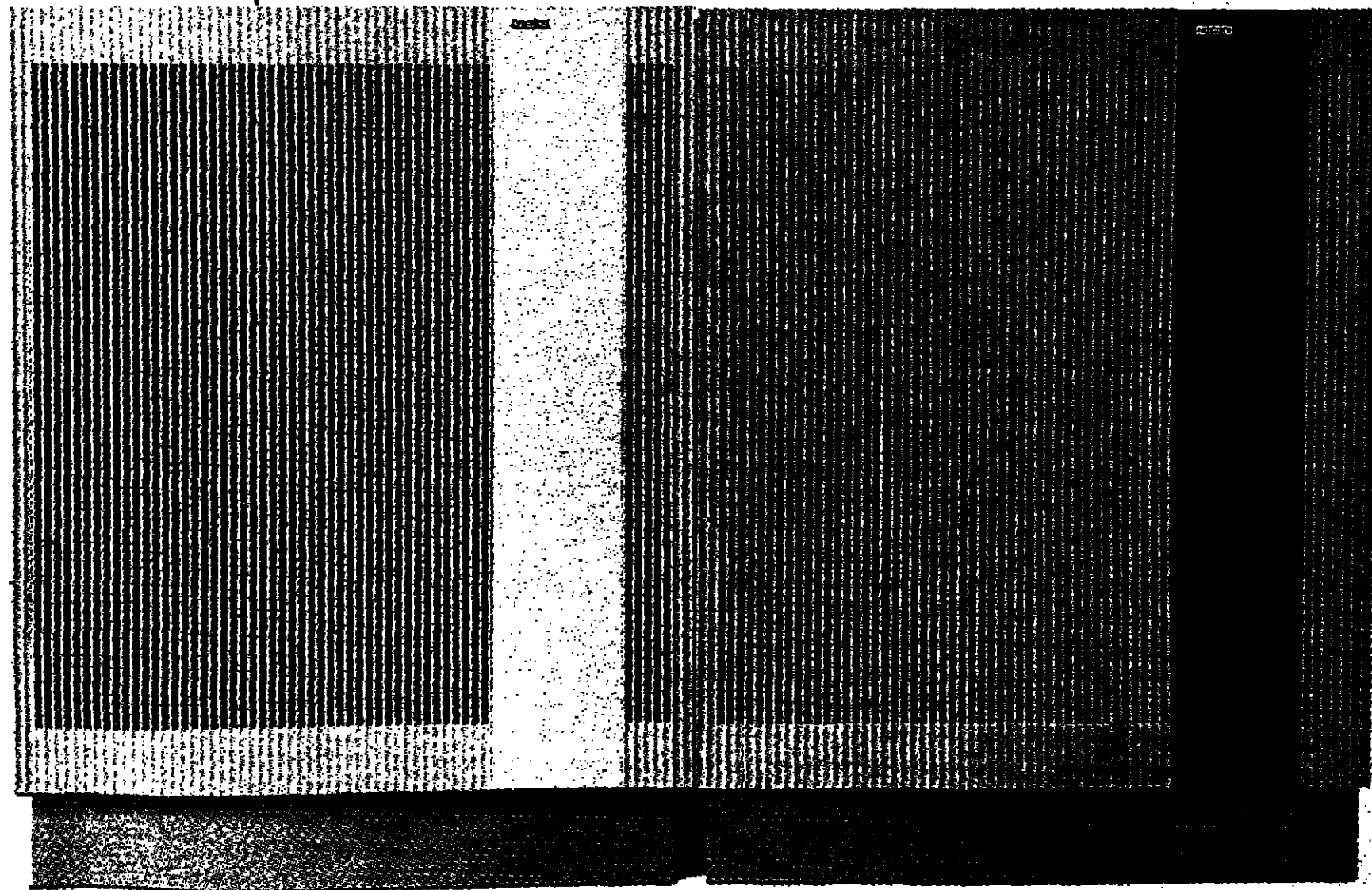
So if you need a computer that's hard to stop, you know where to go.

For more information, contact your local NCR representative.

**NCR 9800. The evolution
of the mainframe.**

NCR

HICCUP!



Monday's NYSE Closing

Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere.

(Continued)

Table listing various stock market data including 12-month high/low, stock symbols, and prices.

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U.S. Futures

Via The Associated Press

June 9

Table listing various U.S. futures market data including grains, soybeans, and oil.

Table listing various U.S. futures market data including livestock and feeder cattle.

Table listing various U.S. futures market data including currency options and Philadelphia exchange.

Table listing various U.S. futures market data including NYSE High-Lows.

Table listing various U.S. futures market data including Paris commodities.

Table listing various U.S. futures market data including London commodities.

Table listing various U.S. futures market data including London metals and US treasuries.

Food

June 9

Table listing various food market data including coffee, sugar, and cocoa.

Table listing various food market data including orange juice and soybeans.

Table listing various food market data including soybean meal and soybean oil.

Table listing various food market data including live hogs and feeder hogs.

Table listing various food market data including pork bellies and hams.

Table listing various food market data including hams and hogs.

Table listing various food market data including hams and hogs.

CERT DEPOSIT (NAME)

Table listing various certificate of deposit rates for different banks and terms.

Table listing various certificate of deposit rates for different banks and terms.

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EC to Try to Defuse U.S. Steel Dispute

LUXEMBOURG — European Community ministers authorized on Monday a new round of talks with the United States over EC steel exports. A dispute over the issue has dogged relations between the trading partners since December.

Maryland S&L's Deposits Are Free After Takeover By New Jersey Thrift

BALTIMORE — Carter Savings Bank of New Jersey took control Monday of Admiral Builders Savings & Loan Association, giving the thrift's 5,600 customers free access to their deposits for the first time in almost 13 months.

Seoul Rejects U.S. Demands On Textile Export Agreements

SEOUL — South Korea rejected on Monday U.S. demands to hold textile exports to the United States at the 1985 level for the next three years and to subject linen and silk to export quota restrictions, South Korean officials said.

Paris Commodities

Table listing various Paris commodities market data including sugar, cocoa, and coffee.

London Commodities

Table listing various London commodities market data including sugar, cocoa, and coffee.



سكاي نيوز

Monday's AMEX Closing

Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere. Via The Associated Press

Table with columns: Stock, Div. Yld. PE, High, Low, Open, Close, Change. Lists various stocks including ADI, AM, AMT, etc.

Table with columns: Stock, Div. Yld. PE, High, Low, Open, Close, Change. Lists various stocks including AIG, AIZ, ALB, etc.

Table with columns: Stock, Div. Yld. PE, High, Low, Open, Close, Change. Lists various stocks including ALE, ALK, ALP, etc.

Table with columns: Stock, Div. Yld. PE, High, Low, Open, Close, Change. Lists various stocks including AMB, AME, AMF, etc.

Table with columns: Stock, Div. Yld. PE, High, Low, Open, Close, Change. Lists various stocks including AMN, AMO, AMP, etc.

Table with columns: Stock, Div. Yld. PE, High, Low, Open, Close, Change. Lists various stocks including AMQ, AMP, AMR, etc.

Table with columns: Stock, Div. Yld. PE, High, Low, Open, Close, Change. Lists various stocks including AMT, AMX, AMY, etc.

AMEX Highs-Lows

Table listing high and low prices for various stocks like AL Labs, Amgen, etc.

VLAG 1985 - Continued good performance

The VIAG Group comprises over one hundred companies operating in the energy, aluminium and chemical fields.

ENERGY - Generating structure further improved

In 1985 the VIAG electricity generating companies reported a 3.9% increase in sales to their supply areas, a figure that was higher than the German national average...

ALUMINIUM - Increased processing

In a difficult year for most aluminium producers the VIAG Group recorded a satisfactory result in spite of lower proceeds in the second half of the year...

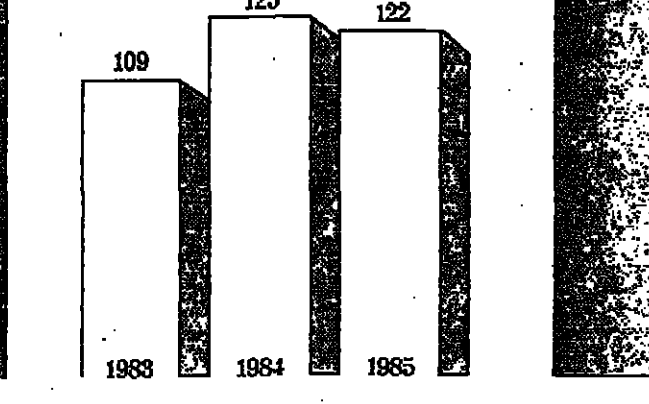
CHEMICALS - All divisions profitable

Expansion of specialty lines in 1985 combined with restructuring measures and productivity increases contributed to a successful year in this field.

DIVIDEND Raised to 10%

The VIAG Group increased total turnover by 2% to DM 122 billion. This increase was achieved by the energy sector...

VIAG-Consolidated-Group net income in DM million



Highlights from the VIAG-Consolidated-Group's balance sheet

Table comparing 1985 and 1984 figures for property, plant, equipment, investments, consolidated inventories, liquid funds, etc.

The complete VIAG AG balance sheet and VIAG-Consolidated-Group balance sheet as of December 31, 1985, will be published in the Federal Gazette...

Large growth in fixed assets investment

The VIAG Group invested more than DM 1 billion in fixed assets. The emphasis lay in power station construction, environmental protection schemes...

Positive outlook for stock exchange listing

The outlook for the 1986 business year is again favorable. VIAG is thus well prepared for the forthcoming introduction of its shares on German stock exchange...

VIAG Aktiengesellschaft logo and branding.

Vertical text on the right edge of the page, including 'a third of Denmark', 'art from his ability to keep', 'ility against', 'ad and them', 'he dribbled', 'nders before', 'mine.' he', 'liant pass to', 'e goal really', 'f the World', 'don likened', 'pong diplo-', 'sumption of', 'e 1970s', 'is, and I', 'my wedding', 'macy," the', 'the July 23', 'drew to Sa-', 'stepfather is', 'Office said:', 'ions of this', 'ent with the', 'efforts in', 'relations be-', 'tween', 's be the first', 'in sports', 'amicable af-', 'filiated States', 'shell at the', 'mes in Veni-', 'ngly. In the', 'mpics, the', 'd when the', 'gary met in', 'pects. Bi-', 'ain concern-', 'land's accom-', 'ment', 'e careful', 'use constant', 'of the EEC', 'e coach, Ca-', 'nland has', 'ly matches', 'mistake of', 'k) Hately', 'outs of St-', 'and Peter', 'monti said', 'the ground', 'sure on the', 'they have', 'orm.', 't AP, UPD', 'up', 'ed as', 'S'.

Kenya Limits Foreign Investment

By Jonathan Wright

NAIROBI — President Daniel arap Moi of Kenya has signaled a radical change in his country's liberal foreign-investment policy by decreeing that Kenyans henceforth must hold controlling interests in joint ventures with foreigners.

In a speech in the provincial town of Nakuru on Sunday, Mr. Moi said that "from now onwards, Kenyans must own 51 percent or more shares of any joint venture" with businesses based abroad, the official Kenya News Agency quoted him as saying. He said the move was aimed at putting Kenyans rather than foreigners in charge of the economy.

Mr. Moi left a loophole for large projects beyond the scope of local businesses, however, saying that in such cases foreign companies would be allowed to act alone.

The president's statement is a dramatic break with the open-door, free-enterprise policies that have made Kenya one of the most attractive environments in Africa for foreign investment.

The liberal policies, in force since independence from Britain in 1963, encourage multinational companies even without local partners. Economists say that they have helped Kenya avoid the economic disasters that have plagued many of its neighbors.

Mr. Moi has made a series of speeches recently critical of the strong Asian and European influence in local business activity, but Sunday's statement was the most specific.

Last week he promised to speed up the process of "Kenyanization" to phase out the large expatriate work force, and said he would establish a task force to help Kenyans take control of local enterprises.

Diplomats and businessmen said they doubted that the government would enforce the 51-percent rule immediately, to avoid frightening off potential investors.

They noted that other recent economic decisions, such as the introduction of a five-day workweek earlier this year, had come into effect only haphazardly.

A change in the ownership structure of Kenyan businesses, however, would encourage exports to the 15 member states of the Preferential Trade Area, a regional grouping of eastern and southern African countries.

Under PTA rules, goods produced by companies at least 51-percent owned by nationals receive customs concessions.

Amendments adopted at a PTA summit in Burundi last month also give some preference to goods produced by companies in which foreigners control between 50 and 51 percent.

Some executives who have had difficulty holding Chinese partners to negotiated terms have concluded that the Western notion of contract, implying a pact between equals, is alien to traditional Chinese concepts of the role of foreigners on Chinese soil, in which the foreigner has no rights, only privileges that the Chinese confer.

This dovetails with another view, which sees the free-enterprise ideas of Westerners as the natural enemy of the monopolistic attitude ingrained in a state-owned economy.

Not everyone believes the blame can be easily apportioned. Lois Dougan Treliak, a senior China analyst with Business International Ltd. in Hong Kong who wrote a study of joint ventures, said that many problems resulted from poorly negotiated contracts.

"People come here and they get over-awed," she said. It is virtually a truism among foreigners who have lived here for some time that an initial acquaintance with China — its lavish banquets, elaborate courtesies, physical beauty and lingering sense of mystery — can

cause normally hard-headed people to suspend or relax their judgment.

Under a recent Chinese directive, most new joint ventures will be expected to export 51 percent of their production and to draw their earnings from the hard-currency receipts.

But most enterprises face price and quality problems that make exports of that scale an illusion. AMC, for example, has exported none of the 800 Cherokees it has assembled and does not expect to until it has sharply reduced production costs, which are higher than in its main Cherokee plant in Ohio.

For many, the best that can be expected is an accumulating surplus of yuan, which officially is valued at 3.20 to the U.S. dollar, but whose actual value is questionable.

On the principle that China will not allow itself to be exploited for "cheap" resources, and to help rebuild foreign-currency reserves, Western businesses are being subjected to very high costs. Mats Engstrom, president of Tsar Nicolai, a San Francisco-based fine foods company, had to pay Chinese demands that he pay a daily rental of \$100 each for two \$19,000 Chero-



Daniel arap Moi

The changes were a compromise between conservative states such as Kenya and socialist states such as Ethiopia, which opposed concessions to businesses with foreign partners.

U.S. and France Agree on Routes

Reuters

PARIS — France and the United States have agreed to expand trans-Atlantic air routes between the two countries, a spokesman for the state-owned airline Air France said Monday.

Under the accord, likely to go into effect later this year, Air France will be able to fly to Miami and San Francisco. It already operates passenger service to New York, Washington, Chicago, Houston, Los Angeles and Anchorage, Alaska. It also runs cargo service to Boston.

In return, U.S. airlines will be allowed to serve Lyon, the spokesman said. American carriers already may fly to Paris, Marseille and Nice.

CURRENCY MARKETS

Dollar Up Slightly in Europe, U.S.

Compiled by Our Staff From Dispatches

NEW YORK — The dollar ended slightly higher Monday after a day of see-saw range trading. Dealers said the currency's near-term outlook is confused but that it is almost certain to decline further in the longer term.

The U.S. currency closed in New York at 2.2775 Deutsche marks, up from 2.2750 on Friday; at 168.45 yen, up from 167.25; at 1.5155 French francs, up from 1.5125; and at 1.8520 Swiss francs, up from 1.8308.

The British pound slipped to \$1.4980 from \$1.5068.

Dealers said the market's uncertain feelings toward the dollar were reflected in its frequent changes of direction during the day.

In early European trading, they said, operators tried without success to push the dollar below 2.22 DM. It then rose to a high of 2.2410 DM on heavy buying before retreating to 2.2358 at the close in

London Dollar Rates

Currency	Mon.	Fri.
Deutsche mark	2,2358	2,2275
French franc	1,5155	1,5125
Swiss franc	1,8520	1,8308
British pound	1,4980	1,5068

London. The currency then resumed its advance through 2.24 DM after the London interbank market closed.

"I am not at all certain I know what is going on," one London bank dealer said. "The dollar is higher, but we still have the same position as we had on Friday night. Everybody is short and everybody thinks the dollar is headed lower."

Monday's buying was mostly a technical reaction to last week's 12-DM decline, he said. Additional technical support came because the dollar did not fall below 2.2160

DM, a key chart support level, in New York on Friday, he said.

Dealers said that markets are cautious about pushing the dollar much lower in the near term for fear of central-bank intervention. But, they said, a test of 2.20 DM and 167 yen is still possible, perhaps later this week.

They noted that last week's disappointing U.S. employment figures have convinced markets that the Federal Reserve Board will have to ease credit conditions, perhaps unilaterally, to stimulate the sluggish American economy. This sentiment is helping to weigh the dollar down, they said.

In other European markets, meanwhile, the dollar was fixed at mid-afternoon in Frankfurt at 2.2385 DM, up from 2.2344 at the Friday fixing, and at 7.1250 French francs in Paris, up from 7.1110. It closed in Zurich at 1.8423 Swiss francs, up slightly from 1.8370. (Reuters, IHT)

CHINA: Foreigners Reconsider China's Joint-Investment Opportunities

(Continued from first finance page)

possible to manage without a major foreign investment presence in China.

Until recently, executives making investment decisions, usually far away, have tended to minimize this stated concern for sovereignty and to assume that China — in the manner of many of the non-Communist nations in Asia — is embarking on a path that will make it progressively more receptive to multinational corporations. But recent events are forcing a reassessment.

There is concern as well about the future of the "open-door" policy after Deng Xiaoping, the 81-year-old head of the Communist Party, passes from the scene. The past two years have shown more clearly than before that forces are at work inside the party that are a good deal less friendly to foreign influences — and to investments — than Mr. Deng.

For some companies, which cannot afford to take the long view, the question of whether China's markets will open to foreigners is academic. Among them, there is growing frustration over day-to-day treatment. In matters involving labor, taxes, customs duties, and liv-

ing costs, among others, there is a sense that foreigners have been marked for discriminatory treatment.

Some executives who have had difficulty holding Chinese partners to negotiated terms have concluded that the Western notion of contract, implying a pact between equals, is alien to traditional Chinese concepts of the role of foreigners on Chinese soil, in which the foreigner has no rights, only privileges that the Chinese confer.

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For many, the best that can be expected is an accumulating surplus of yuan, which officially is valued at 3.20 to the U.S. dollar, but whose actual value is questionable.

On the principle that China will not allow itself to be exploited for "cheap" resources, and to help rebuild foreign-currency reserves, Western businesses are being subjected to very high costs. Mats Engstrom, president of Tsar Nicolai, a San Francisco-based fine foods company, had to pay Chinese demands that he pay a daily rental of \$100 each for two \$19,000 Chero-

keeps that he had bought for his caviar operation in Beijing this spring, "I told them, 'They're my jeans,'" Mr. Engstrom recalled. "After a while, they got the message."

One U.S. company was asked to pay \$9,000 a month for a Chinese-trained high-technology specialist, more than 10 times the specialist's take-home pay for a year. Many are paying rents of \$90,000 a year for three-bedroom apartments.

Problems with workers have been another bugbear. Beijing's Sheraton Great Wall Hotel, dogged by financial troubles for most of its first two years of operation, recently won the right to fire incompetent among its 1,200 Chinese employees. But the concession was rare. Generally, the work force is supervised by the Chinese partners. In many cases, the result has been dismal productivity rates.

Confronted with a chronicle of such problems, Chinese officials are inclined to point out that few joint ventures have collapsed, indicating at least minimal satisfaction. But many foreign executives say that this is a false standard, since their headquarters have made a strategic decision to stick with their investments regardless of cost.

TORONTO: 'Late-Cycle' Bourse

(Continued from first finance page)

last month imposed a 35-percent tariff on select lumber products.

"We like the industry," he explains, "but we're a little disturbed by what we hear about the U.S. putting tariffs on their products."

John Peppercorn, research director for McLeod Young Weir Ltd., a Toronto securities firm, noted that until recently, foreign investors had only been net purchasers during strong commodity moves. "Now," the foreign investor has been a net purchaser right across the board in banks and the consumer area," he says.

One consumer stock that Mr. Peppercorn mentions is Seagram, which controls 20 percent of Du Pont. Another is Canadian Pacific Ltd., which he refers to as a "proxy" stock because it combines a number of elements in the Canadian economy. Aside from its rail-road operations, it has major stakes in companies involved in natural resources, hotels and real estate.

Two stocks favored by analysts at Merrill Lynch Canada are Brascan and Power Corp., both financial services holding companies.

Rally in New York Boosts Dollar Straights

By Christopher Pizze

LONDON — The dollar-straight sector was sharply higher in the morning Monday following Friday's gains in New York and thereafter fluctuated narrowly around these opening levels, dealers said.

The gains in New York were inspired by Friday's May U.S. employment data, that showed that civilian unemployment rose to 7.3 percent, from 7.1 percent.

But dealers said that after Monday's early rises, trading remained professional, with retail clients not opening new positions.

One trader at a U.S. securities firm said: "After all the gloom and doom of last week, things seem to be looking up a bit. But there's still no sign of relief."

He said Monday's firmer U.S. opening had little impact on prices. Prices of Treasury securities in New York only rose to the levels at which they had been trading in London during the morning.

Seasoned dollar straights showed gains of ¼ to 1½ points from Friday's closing levels. One new dollar straight had been launched by the end of usual trading and it remained around or just inside the fees during the day.

The \$150-million bond issue, led by Credit Suisse First Boston Ltd., was for Marks & Spencer Finance Netherlands BV. It was guaranteed by Marks & Spencer PLC and pays 8½ percent over 10 years. It was priced at 100¼.

It ended just inside the total fees of 2 percent, at a discount of 1½. Marks & Spencer said it was being swapped into sterling "at attractive short-term rates" that were under the London interbank offered rate.

Bank of Tokyo Ltd. issued a 15-billion-yen bond issue paying 6½ percent over seven years and priced at 100¼. But dealers said the issue had an uncertain reception, with the sector currently expecting many issues for foreign banks in the coming month.

Finance Ministry sources in Tokyo told Reuters that seven or eight

foreign banks plan to issue 170 billion to 180 billion yen of Euro-bonds in June. This follows new regulations that allow foreign banks to issue Euro bonds after June 1.

Dealers had been expecting banks to issue bonds totaling around 200 billion yen, but one trader said: "If these bonds are launched, you're going to see a lot of them sitting with the underwriters for a while."

He said the terms on the Bank of Tokyo issue were not that tight in themselves, "it's just that we're going to see a lot of new paper shortly and people are worried about oversupply."

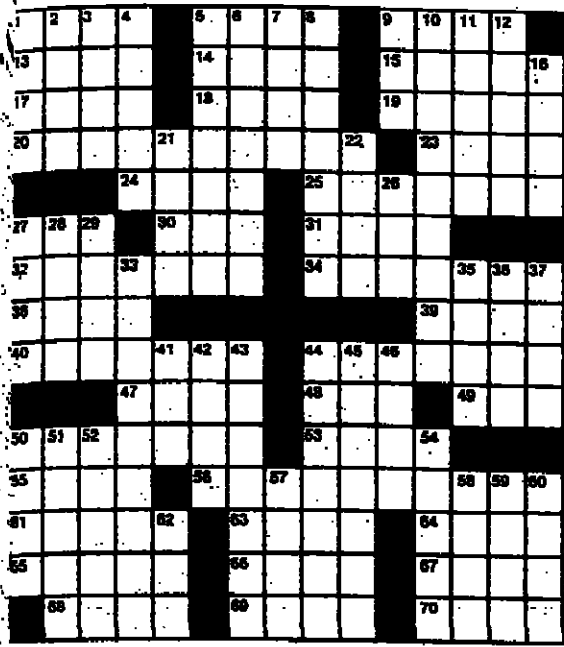
The Bank of Tokyo bonds ended bid on the total fees of 1½ percent, dealers said.

In other new-issue activity, Centrust Savings & Loans issued \$100 million in collateralized floating-rate notes. The notes pay 15 basis points over six-month Libor. The lead manager was Banque Paribas Capital Markets.

Monday's OTC Prices
NASDAQ prices as of 3 p.m. New York time.
Via The Associated Press.

12 Month High	Low	Stock	Div. Yld.	Sales in 1985	High	Low	3 P.M. CLOSING	Net Chg.
115	110	ABC	1.5	100	115	110	112	+2
120	115	DEF	2.0	150	120	115	118	+3
130	125	GHI	3.0	200	130	125	128	+3
140	135	JKL	4.0	300	140	135	138	+3
150	145	MNO	5.0	400	150	145	148	+3
160	155	PQR	6.0	500	160	155	158	+3
170	165	STU	7.0	600	170	165	168	+3
180	175	VWX	8.0	700	180	175	178	+3
190	185	YZA	9.0	800	190	185	188	+3
200	195	BCD	10.0	900	200	195	198	+3
210	205	EFG	11.0	1000	210	205	208	+3

... (Additional columns and rows follow in the same format for the rest of the OTC market listing.)



ACROSS

1 Bugler's lights-douser
5 Poon product
9 Orlop cleaner
13 Moonfish
15 Fabled loser
16 Pacific arid
17 Matarador's charger
18 Armadillo
19 Laud
20 Varsity bench warmers
23 "But" —
24 Fielding
25 Bingie
26 Shoulder adornment
27 Collar
28 Settled habit
29 Estuaries
30 Run
31 Rums
32 Reject
33 Con man's victim
34 Kind of horse
35 Camel
36 Unyielding
37 Cuba is one
38 Dowry
39 — Plains
40 Nursery vessel
41 Lonian vowel
42 Secular
43 Agricultural flier

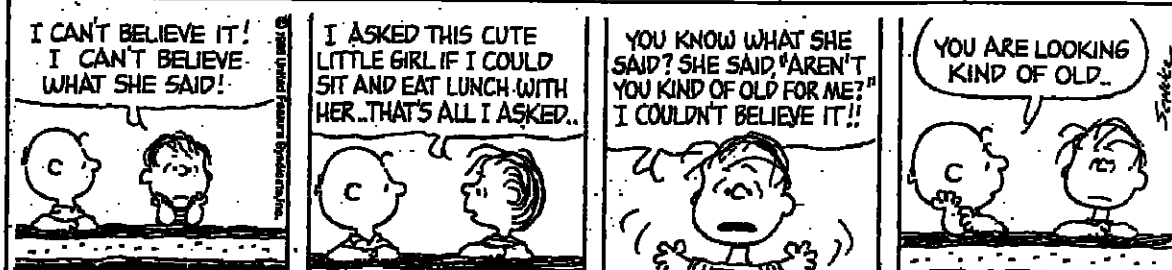
DOWN

1 Shavers who don't shave
2 BK of Revelation
3 Henry VIII's third
4 Catherine
5 Cry
6 Guldry's goal
7 Artist's board
8 Wild buffalo of India
9 Hole-shaping tools
10 Canonized Fr. worran
11 Madame Tussaud's realm
12 Soviet co-op
13 Pat or Dan's items: Abbr.

61 — Downs
62 Old Greek coin
63 So long, in Soho
64 Home of an oracle
65 Sage
66 Verb for All Baba
67 Albanian coins
68 Forward-looking fellow
69 Symbol for Sibelius

21 Adriatic wind
22 Smokehouse device
23 Thun's river
24 — Scotia
25 Rich Little, e.g.
26 Key letter
27 "Coma" author
28 best for sale's
29 — writer: Shak
30 Word on the wall: Dan. 5:25
31 Cliques
32 Social ending
33 McCowen or Clunes
34 Verrazano — Bridge
35 Fat
36 Aimless artist
37 One of the
38 Near Islands
39 Begged
40 Badge site
41 Choice seat
42 Fur mogul
43 One of Tony's relatives
44 Canes
45 seasons
46 Declaim
47 Pat or Dan's items: Abbr.

PEANUTS



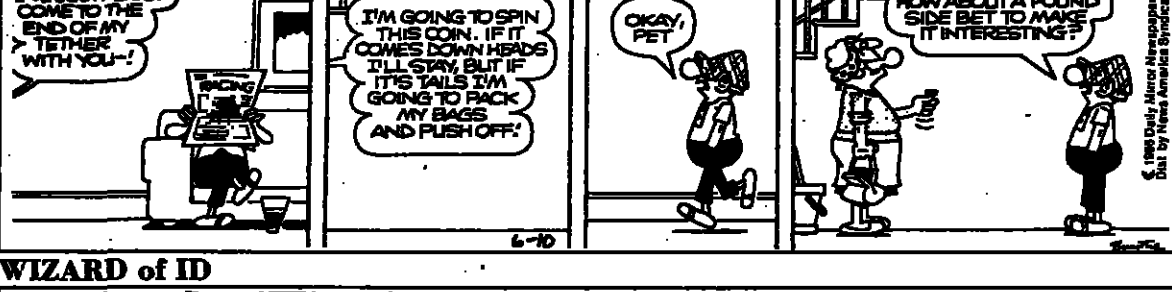
BLONDIE



BETLE BAILEY



ANDY CAPP



WIZARD of ID



REX MORGAN



GARFIELD



BOOKS

SUCCESS STORIES

By Russell Banks. 183 pages. \$15.95. Harper & Row Publishers Inc., 10 East 53d Street, New York, N. Y. 10022.

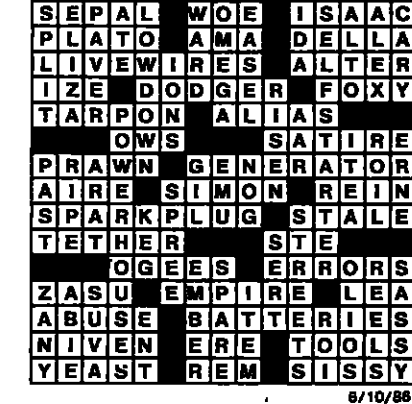
Reviewed by Michiko Kakutani

In his last book, "Continental Drift," Russell Banks created a visionary epic about innocence and guilt, and in doing so, he also set down a shattering portrait of contemporary American society. His story of one man's doomed attempts to reinvent his life became a dark mirror of the American dream.

still believing in the Dream

— the good life made possible by "sweepsstakes tickets, lotteries, raffles" — he is also outraged by the unfairness of his family's dilemma and determined to set it right. By the time we meet Earl again in this volume's last story, he has made a kind of grudging peace with his family, but at a cost — he is a battered man, disillusioned and on some level so defensive that he is incapable of loving or being hurt.

Solution to Previous Puzzle

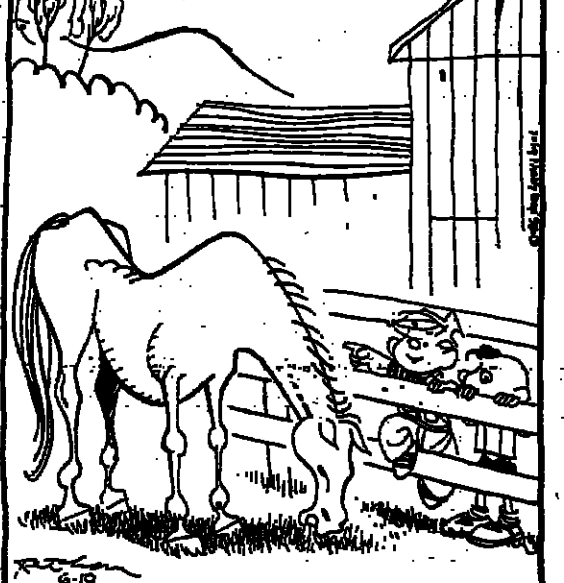


The remainder of the tales in this volume

— seemingly sprinkled at random among the Earl stories — are an odd hodgepodge of symbolism and experiment.

© New York Times, edited by Eugene Malachuk.

DENNIS THE MENACE



JUMBLE

A word game section titled 'JUMBLE' with a grid of letters and instructions to unscramble words.

WEATHER

A weather forecast table with columns for Europe, Asia, Africa, Latin America, North America, Middle East, and Oceania, listing high and low temperatures and conditions.

World Stock Markets

A table of world stock market data, including indices for Amsterdam, London, Frankfurt, Zurich, and other major markets.

Chess

By Robert Byrne. NICK DeFirmian was the only grandmaster entered in the San Francisco International Tournament, as he demonstrated by taking the first prize.

Chess

By Robert Byrne. 10... QN-Q2 and readied P-B4. After 12 Q-B2, Black was faced by the unpleasant prospect of a powerful white center launched by 13 P-K4.

The Daily Source for International Investors

An advertisement for 'The Daily Source for International Investors' featuring a list of international stock markets and a small illustration of a globe.

TUESDAY'S FORECAST — CHANNEL 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70.

Vertical text on the right edge of the page, including 'Page 19', 'Page 9', and various fragments of text from other pages.

Handwritten note: "Sokalski"

ART BUCHWALD

Members of the Wedding

WASHINGTON — It is June, and weddings are busting out all over. The one thing I notice is that many parents tend to be more upset with the guests who do not come to the wedding than pleased with those who do.



Buchwald

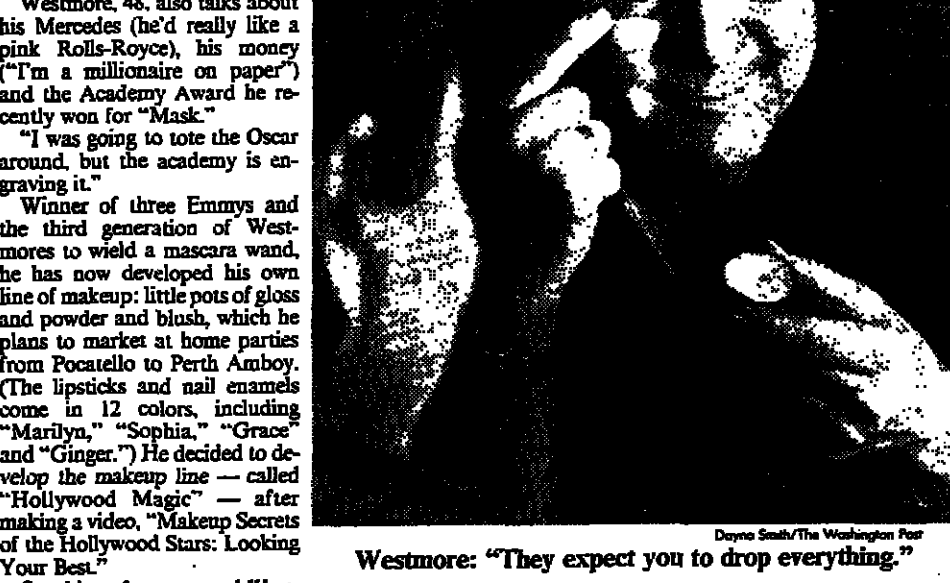
So it was with Bob and Kathie Parish of Sag Harbor, New York, whose lovely daughter Kate was married last week. I found Bob and Kathie standing on the porch overlooking their palatial garden filled with wedding guests. I expected them to be happy since everything was going so smoothly.

"Wait a minute," I said. "I see Judy Sokal over there by the zebra. You have to give her credit for being here." Bob said, "We're only keeping track of people who didn't come." Kathie's eyes were sweeping the crowd. "I knew it, I just knew it. The Chancellors didn't make it." "Maybe they had to go out of town," I suggested.

By Stephanie Mansfield

Washington Post Service

Making Money Making Up the Stars



Westmore: "They expect you to drop everything."

WASHINGTON — Michael Westmore doesn't drop names, he hurls them like cream pies — Sly, Liz, Cher, Clint, Farrah. He even drops dead people's names — Valentino, Errol Flynn, Charles Laughton. It's distracting. It's degrading. It's degrading for one of Hollywood's top makeup artists.

It's actually "nonirritating rayon fibers. You touch your mascara on. Then you touch your lashes with that. Then you put more mascara on. It's like a fake eye-lash. All the people on 'Dynasty' are using it."

Which reminds him of Rock Hudson. Yes, Westmore said, because of AIDS he has to be more careful; the whole scene has gotten much more hygienic. "You can't take a chance." He predicted that more stars would come down with acquired immunodeficiency syndrome.

So much has changed since Michael Westmore's grandfather, George Westmore, went to Hollywood at the turn of century. A wigmaker, George started the first studio makeup department in 1917. Michael's father was Monty Westmore, who worked for Selznick Studios and whose credits include "Gone With the Wind" and "Mutiny on the Bounty."

PEOPLE Soviet Jazz Stars Gather

The four-day Moscow jazz festival brought out some of the mainstays of the Soviet jazz scene, from the Oleg Landstam big band, whose records are sold internationally, to the Seven Semenovs, a family swing group on a road trip from Irkutsk, Siberia.

This year's Spoleto Festival U.S.A. in Charleston, South Carolina, has closed with a gala celebrating its 10th anniversary and the 75th birthday of its founder, Carlo Menotti. The show included ballet performances by Mikhail Baryshnikov, Alessandra Ferri and Alicia Alonso. Renata Scott and Puccini, and Marvis Martin sang "Summertime" from the Gershwin opera "Porgy and Bess," which is set in Charleston.

The poet Adrienne Rich, a professor of English and feminist studies at Stanford University, has been awarded the first \$25,000 Ruth Lilly Poetry Prize. Funded by an Indianapolis philanthropist, Ruth Lilly, the prize is one of the richest for U.S. writers.

Eric Jacobsen isn't worried about being accused of jumping aboard the rock-with-a-cause bandwagon with his new single about the four Americans still held hostage in Lebanon. His father, David Jacobsen, former administrator of the American University Hospital in Beirut, is one of the hostages. Jacobsen, 29, who works at a medical research company in Costa Mesa, California, said the aim of "Who's the Word Comes (Bring Them Home)," written with his brother Paul, was to "keep this issue alive and in front of the American people," but if money also results it will be donated to the Washington-based Hostage Fund.

The conductor Lorin Maazel has married the German actress Dietlinde Turban in a private ceremony in Monte Carlo. It was the third marriage for Maazel, 56, and the first for Turban, 28. Bob Dylan, a Jew who flurried with fundamental Christianity in the late 1970s, has spent some of the last four years living and worshipping with Hasidic Jews, the New York Daily News reports. Members of Brooklyn's Lubavitch community said the singer-songwriter had been taking instruction from Talmudic scholars. "We do not want to know about him here," said Rabbi Tzvi Hirsch Krinsky, spokesman for the Lubavitch community. "He is a very private person and we respect his wishes to remain so."

Bavarians Mark Date Of Ludwig II's Death

NEUSCHWANSTEIN, West Germany — Bavarians are celebrating the centennial of the death of King Ludwig II, the castle builder and Wagner patron who drowned in Starnberger See at age 40 on June 13, 1886.

The anniversary has touched off a wave of nostalgia. It is being celebrated with movie festivals, panel discussions, a half-dozen new books and a plethora of trinkets.

"You people are really keeping score, aren't you?" Bob said. "I've given up many a weekend to go to the weddings of my friends' children, even when I had tickets to a Jets game. I expect

"Forget the Sullivans, and give credit to those who are here, like the Flicks, the Schicks and the Wicks." Bob said, "We gave the Sullivans a damn nice wedding present, and never even got a thank-you note."

"In spite of everything," I told them, "you have a lovely group of people here, and I doubt if you could accommodate any more guests."

"The ones I hate the most," Kathie said, "are the friends who call up at the last moment and tell you that they have swine flu."

"Why do you hate them?" I asked her. "Because we still have to pay the caterer whether they come or not."

"You're ruining your day keeping score of all the no-shows at your reception," I said. "Not me," said Bob. "I never take anything personally."

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